

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF HAMPTON, VIRGINIA**

For the Fiscal Year Ended June 30, 2006

Prepared by:

Karl S. Daughtrey, Director of Finance

Sylvia L. Shanahan, Controller

and

The Department of Finance

**CITY OF HAMPTON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2006**

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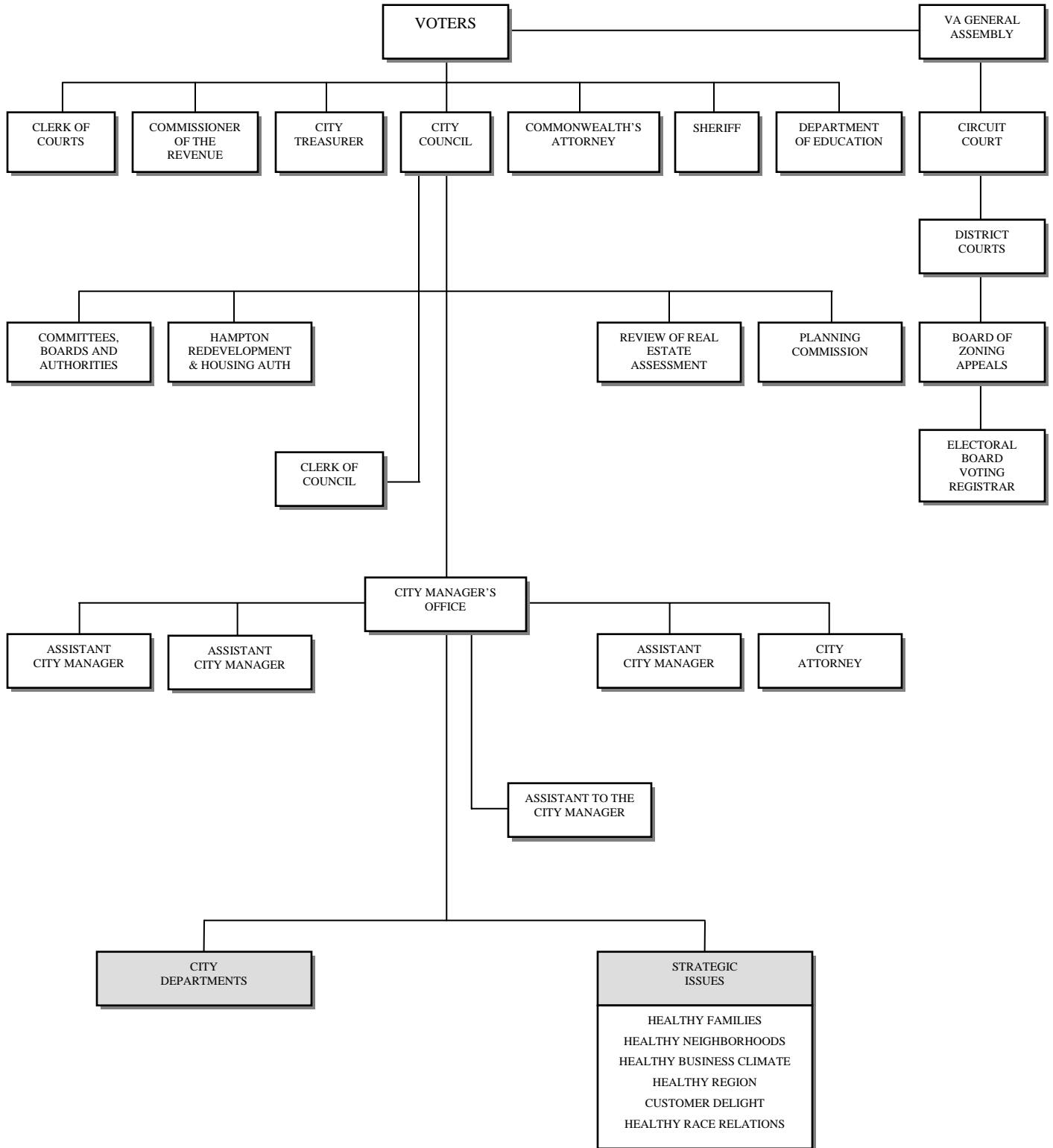
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CITY OF HAMPTON, VIRGINIA
June 30, 2006



CITY OF HAMPTON, VIRGINIA
June 30, 2006

ELECTED OFFICIALS

CITY COUNCIL

Ross A. Kearney, II, Mayor
Joseph H. Spencer, II, Vice Mayor
Randall A. Gilliland
Angela Lee Leary
Charles N. Sapp
Turner M. Spencer
Rhet Tignor

CONSTITUTIONAL OFFICERS

Linda B. Smith - Clerk of Courts
Linda D. Curtis - Commonwealth's Attorney
Ross A. Mugler - Commissioner of the Revenue
Molly Joseph Ward - City Treasurer
Billy Joe "B.J." Roberts - City Sheriff

APPOINTED OFFICIALS

CITY ADMINISTRATION

Jesse T. Wallace, Jr. - City Manager
Mary Bunting - Assistant City Manager
James A. Peterson, CPA - Assistant City Manager
Karl S. Daughtrey, CPA - Director of Finance
Christine Snead - Director of Budget
Sylvia L. Shanahan - City Controller

CITY OF HAMPTON, VIRGINIA
June 30, 2006

SCHOOL BOARD

Lennie F. Routten, Chairman

Henry J. Godfrey, Vice Chairman
Fred A. Brewer, Jr.
Anderson W. Clary, Jr.

Linwood D. Harper
Phyllis T. Henry
Ruthann N. Kellum

SCHOOL ADMINISTRATION

Dr. Patrick Russo - Superintendent
Dr. Patricia Johnson - Assistant Superintendent for Curriculum and Instruction Pre K-12
Dr. Linda Shifflette - Assistant Superintendent for Instructional Support Pre K-12
Dr. Mildred Sexton - Executive Director of Elementary School Leadership
Patricia Leary - Executive Director of Elementary School Leadership
John Pauls - Executive Director of Secondary School Leadership
Laura Thornton - Director of Human Resources
Michael Thornton - Chief Operations Officer for Facilities and Business Support
Carolyn Bowers, Clerk of Board

HAMPTON EMPLOYEES' RETIREMENT SYSTEM

BOARD OF TRUSTEES

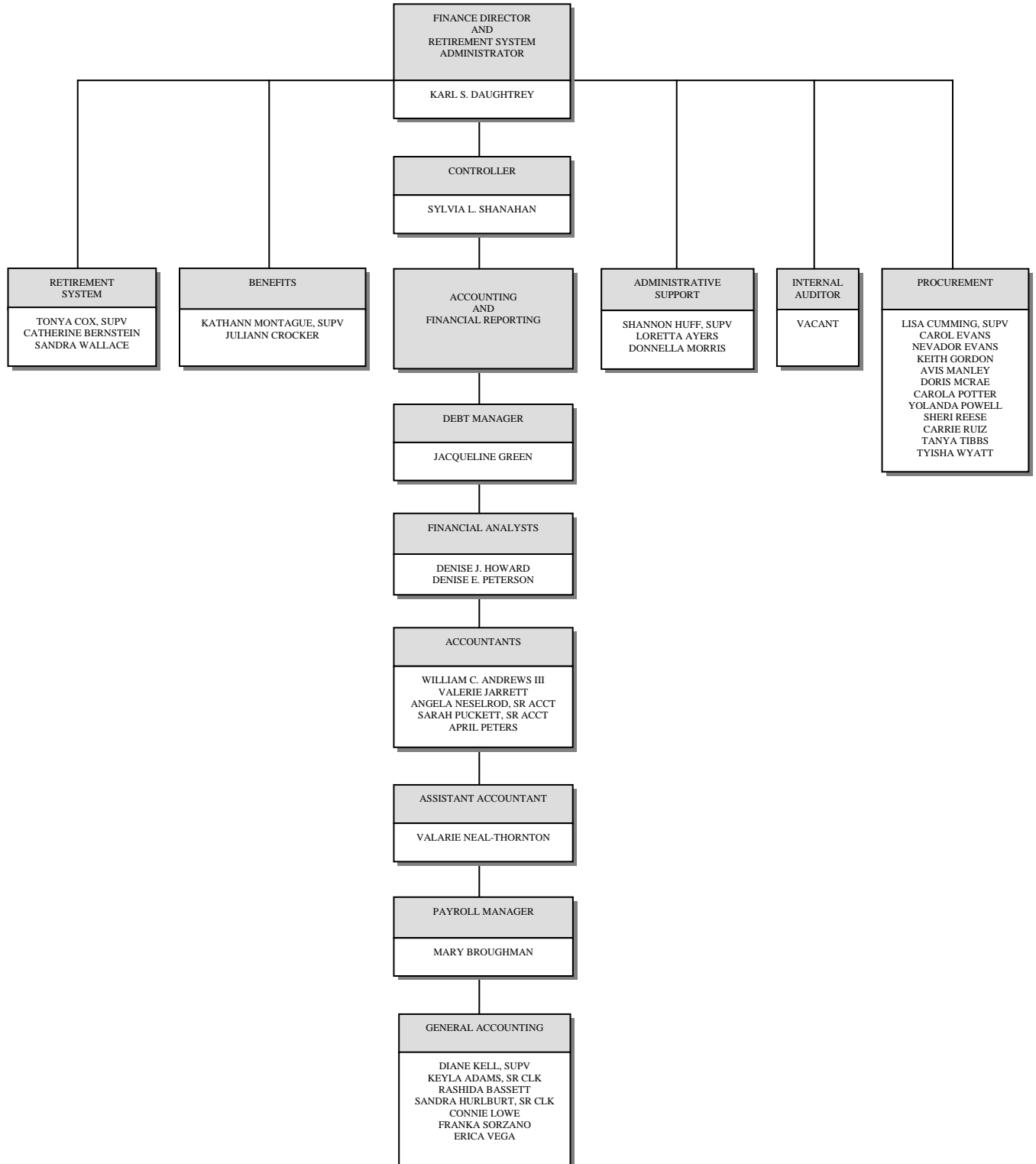
A. G. Womble, Jr., Chairman

Kevin L. Hankins, Vice-Chairman
Cynthia Hudson, Legal Counsel
Sue Ange
James Cross
Donald Hundley

Randolph Lewis
James A. Peterson
Ann Stephens
William F. Trimble, Jr.

Karl S. Daughtrey, Administrator and Treasurer
Tonya E. Cox, Secretary

CITY OF HAMPTON, VIRGINIA
DEPARTMENT OF FINANCE
June 30, 2006



LETTER OF TRANSMITTAL





City of Hampton

November 30, 2006

Honorable Mayor, Members of the
City Council, City Manager and the
Citizens of the City of Hampton
Hampton, Virginia

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Hampton, Virginia (the City) for the fiscal year ended June 30, 2006. State law requires the City to publish, at the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with Governmental Accounting Auditing Standards by a firm of licensed certified public accountants. This report has been prepared by the Department of Finance and the report does comply with these guidelines and the Auditor of Public Accounts of the Commonwealth of Virginia.

The City's Management assumes full responsibility for the accuracy, completeness, and reliability of all information presented in this report. We believe the data, as presented, is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. In order to provide reasonable, but not absolute, assurance regarding the data, the management of the City has designed a framework of internal accounting controls to protect the City's assets from loss of unauthorized use or disposition, provide reliability of financial records for preparing financial statements and maintain the accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and that the evaluation of costs and benefits requires estimates and judgments by management. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Budgetary control is maintained at the line item level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of line items are not issued until additional appropriations or transfers are made available. Open encumbrances are reported as reservations of fund balance at June 30, 2006.

State law requires that the financial statements of the City be audited by a certified public accountant selected by the City Council. Witt Mares, PLC, Certified Public Accountants have audited the City's financial statements. As a result of an audit of the City's financial records and transaction of all funds, component units and departments of the City, Witt Mares, PLC have issued an unqualified opinion on the City of Hamptons' financial statements for the year ended June 30, 2006. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was component of a broader, federally mandated "Single Audit" designed to meet the special needs of all federal grantor agencies. The standards as promulgated by the Single Audit Act Amendments of 1996 require the independent auditors report on internal control and compliance with applicable laws and regulations regarding the administration of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These reports are located in the Financial Compliance Reports for Federal Funds section of the CAFR.

GAAP requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City

Background

The City of Hampton, Virginia, settled in 1610, is the oldest English-speaking community in continuous existence in the United States. The City was incorporated on March 30, 1908 and has operated under its existing charter since December 16, 1952. Its boundaries were extended on July 1, 1952 through the annexation of Elizabeth City County and Phoebus. The City is comprised of 72 square miles, including 54.7 square miles of land and 17.3 square miles of water. Hampton is situated at the extreme southeastern tip of the Lower Peninsula of Virginia. It is bounded on the west by the City of Newport News, on the north by York County and the City of Poquoson, on the east by the Chesapeake Bay and on the south by the Harbors of Hampton Roads. Hampton is part of the Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area (MSA).

As of July 1, 2005, current estimated population in Hampton is 145,500. This indicates an increase in population of 1.89% or 2,700 from the 2004 estimate of 142,800.

Hampton is an independent, full-service City with sole local government taxing authority within its boundaries. It is empowered by state stature to levy property taxes on real and personal property located within its boundaries. The governing body of the City is an elected City Council composed of a mayor and six (6) council members. The Mayor and City Council members are elected for four (4) year terms in general elections held every two (2) years. The City Council appoints the City Manager who acts as the Chief Executive Officer of the government. The City Manager serves at the pleasure of the Council and is charged with the responsibility of carrying out their policies, directing business procedures, and appointing and removing all department heads and city employees.

As a full-service City, Hampton provides a broad range of municipal services to its citizens. Those services include public safety, education, public works, refuse-collection, recreation, building inspection, public health, social services, planning, and community development, etc. The City of Hampton and its citizens purchase their water and sewer service directly from the Newport News Waterworks and Hampton Roads Sanitation District, respectively. Based on a 2005 *Digital Cities Survey*, the City of Hampton was designated as one of the most technology-advanced cities in America as named by the Center for Digital Government. The survey was developed by the Center and the National League of Cities (NLC) and examines how city governments are utilizing digital technologies to better serve their citizens and streamline operations. In the group of cities with 125,000-249,999 population, the City ranked 7th.

Budgetary Systems

The annual budget serves as the foundation for the City of Hampton's financial planning and control functions. The budget is prepared annually for fiscal year, July 1 to June 30. The City's charter requires the City Manager to deliver the proposed fiscal year budget to the City Council no later than April 15th of any given year. The City Council is required to hold a public hearing on the proposed budget. As required by state law, the adoption of the final budget must be completed by May 15th. The City must appropriate funds for both the City and school system operation in accordance with state law. The appropriated budget is prepared by fund, function, (e.g. public safety) and department (e.g. fire). The annual appropriation ordinance sets the authorized expenditure level for each department. Department heads, budget department and finance department constantly monitor the budget during the course of the fiscal year. The City Manager is authorized to transfer budgeted amounts within the General Fund; however, revisions that alter the total appropriations for a department must be approved by City Council. Transfers within the School Operating Fund are under the control of the School Board.

Component Units

The financial reporting entity includes all funds of the primary government (the City), as well as its component units. Component units are legally separate entities for which the City is financially accountable for and provides operating and capital funding or their economic resources are either significant to the City. In addition to owning and operating the Hampton Coliseum and two (2) golf courses; in accordance with GASB 39, the City has included the financial data of seven discrete components units which are legally separate entities; Hampton City School Board, Industrial Development Authority (IDA), Federal Area Development Authority (FADA), Healthy Families Partnership, Inc., Coliseum Central Business Improvement District, Inc., Downtown Hampton Development Partnership, Inc., Foundation of the Virginia Air and Space Center .

The City has one blended component unit, the Hampton Redevelopment and Housing Authority (HRHA) whose governing board is substantively the same as the City of Hampton governing board, the City Council. HRHA is a legally separate public corporation, which was established under the laws of the Commonwealth of Virginia to manage, operate, and provide low rent public housing within the City. Surpluses and deficits are the responsibility of HRHA. Budgetary approval, the signing of contracts, hiring of key personnel and control over facilities is all performed by HRHA

The Hampton-Newport News Community Services Board (CSB) operates as an agent for the cities of Hampton and Newport News in the establishment and operation of community mental health, mental

retardation and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia, relating to the Virginia Department of Mental Health and Mental Retardation. In addition, the Board provides a system of community mental health and mental retardation and substance abuse services that relate to and are integrated with existing and planned programs. The CSB designates its own management and adopts its own budget. The operations are financed principally by state and federal funds. The CBS is not included in the City's financial statements.

The following are other agencies and commissions that serve the City of Hampton and surrounding localities. Board membership is allocated and appointed by the various councils and boards of the localities.

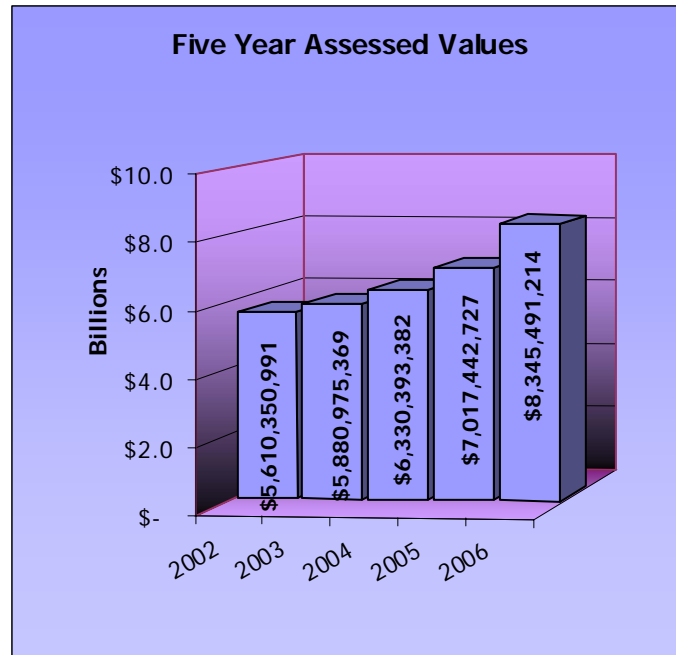
1. Hampton Roads Transit (HRT)
2. Peninsula Airport Commission (PAC)
3. Hampton Roads Planning District Commission (HRPDC)
4. Peninsula Alliance for Economic Development (PAED)
5. Virginia Peninsulas Public Service Authority (VPPSA)
6. Hampton Roads Regional Jail Authority (HRRJA)

Economic Conditions and Outlook

Local Economy

The City's central location in the Norfolk-Virginia Beach-Newport News, Metropolitan Statistical Area ("MSA") affords its businesses the ability to take advantage of resources offered throughout the area. During the past ten years, the unemployment rate has fluctuated from a low of 3.6 % to a year high of 5.8%. As of June 2006, the unemployment rate is 4.2%. This rate is above the State rate of 3.3% but below the U.S. rate of 4.82 %.

The City's strategic location and economic development activities offer its residential civilian labor force a wide range of employment opportunities. The assessed value of the City's residential and commercial property continues to increase reflecting strong local housing demand mainly due to low interest rate and the demand for housing. For the fiscal year 2006, the real property assessments have increased by approximately \$1,328,048. or 18.9%.



Economic Development

The City is home to two institutes of higher education: Thomas Nelson Community College and Hampton University. Founded in 1868 as Hampton Institute, Hampton University was primarily built to provide education for freed slaves. Today the University is one of the country's most prestigious historically black colleges attracting students across the nation.

Hampton's many business advantages have attracted a long list of prosperous and well-known national and international companies. Manufacturing, retail, services, contractor facilities, and federal installations comprise the major components of economic activity within the City. Additionally, the telecommunications industry has installed an infrastructure of fiber optic cable and digital switching that has kept pace with new technology and has enhanced Hampton's competitiveness in attracting certain industries.

During Fiscal year 2006, the Business Development Team was involved in 21 commercial projects totaling \$40.42 million in private investment, creating 855 new jobs and retaining 33 jobs within the office, manufacturing and warehouse sectors. A summary of some of the commercial activity/development that has taken place during fiscal year 2006 is as follows:

ACO Development purchased 13 acres in the Copeland Industrial Park in May 2006 for a mixed-use development consisting of commercial retail and office/flex facilities for sale or lease. ACO has sold parcels to 7-11 and Langley Federal Credit Union. A one-acre parcel is under contract to Abbott Contracting who is looking to construct a 10,000 square foot office/warehouse complex.

Intelligent Decision Systems, Inc., a modeling and simulation company won the TRADOC education and training products contract valued at \$342 million over a five-year period. IDS, Inc., is collaborating with CSC and the Training Center for Excellence in Hampton and has created 20 new jobs.

Riverside Healthcare purchased 13 acres in the Hampton Roads Center South Business Park in November 2005. Riverside is now developing an 88,000 square foot, multi-story, medical office building and ambulatory surgical center that will later be expanded to 122,000 square feet.

U. S. Air Force Command and Control Intelligence, Surveillance and Reconnaissance Center is set to move into its new building in Hampton Roads Center North Business Park. Approximately 620 employees will work at the new building. The total investment for this project is \$23.1 million which includes the sale of 10 acres in Hampton Roads Center North Business Park to Craig Davis to develop the building.

Demolition of the Coliseum Mall is scheduled to begin in July 2006 and Phase I of this project is expected to be completed in late 2008. The estimated private investment by the developer is over \$142 million. This does not include tenant investments or the value of the developer's land and public improvement cost that will be paid by the special assessment on the property. The City expects to receive over \$132 million in incremental tax revenues (over and above what it currently receives from the Coliseum Mall) over the first 30 years.

The privately owned post office building located in the downtown area will be renovated and converted into a boutique hotel with a minimum of 50 guest rooms. The total private investment is expected to be \$4 million.

The former JDR Court Building will be renovated and transformed into 30 corporate condominiums for executives who lease space on a six-month to two years basis to do business in the area. The estimated private investment will be \$3.2 million.

A Hilton Garden Inn and a SpringHill Marriott is scheduled to open in the Power Plant development area. These hotels will provide 268 new quality hotel rooms. The estimated private investment for the hotels is \$29 million and over \$715,000 is expected in annual tax revenues.

BJ's Wholesale Club is scheduled to open in late November or early December at the Power Plant. Gross sales are expected to reach between \$75 million and \$100 million.

Military and Federal Research Facility

Langley Air Force Base (LAFB) is among the oldest continuously active air force bases in the United States. LAFB is home to the 1st Fighter Wing with the mission of maintaining combat capability for rapid global deployment to conduct air superiority operations. In 1992, LAFB became the headquarters for the Air Combat Command which acts as the primary provider of air combat forces in the warfighting commands and as the proponent for Intercontinental ballistic missiles and fighter, bomber, reconnaissance and battle-management aircraft and command, control, communications and intelligence systems.

The National Aeronautics and Space Administration's NASA/Langley Research Center is located in Hampton adjacent to Langley Air Force Base. The Center leads NASA initiatives in aviation safety, national defense, environmental study and the quiet aircraft technology, small aircraft and aerospace vehicles system technology. The Center has 1,913 full-time employees and had a total local impact of \$132.9 million to Hampton Roads according to their Economic Impact Summary for Fiscal Year 2005. The Center's priority is to continue research for the Space Shuttle's return to flight and the International Space Station by supporting systems analysis, systems engineering and technology development.

Fort Monroe is slated for closure in 2011 as a result of the 2005 Base Closure and Realignment Commission decision. As a result, the Hampton Federal Area Development Authority (FADA), authorized by the General Assembly in 2005, is the federally-recognized entity to plan for the reuse of the 570 acre base. Planning consultants and FADA staff have developed preliminary reuse options, all of which call for mixed use development consisting of single family and multi-family housing, office uses, limited retail, and open space and parks. The final plan decision will not take place until detailed environmental analyses have been concluded. The federal deadline for HUD's approval of the plan is September, 2007.

General Government Financial Operations

All general governmental operations are accounted for in the General, Special Revenue, Capital Projects and Debt Service Funds. Substantially all recurring revenues and expenditures are accounted for in the General Fund and the School Operating Fund (included in the Discretely Presented Component Unit-School Board financial statements).

Total revenues, expenditures, and other financing sources and uses, for the General and School Operating Funds are as follows:

	<u>000's Omitted</u>		
	<u>2006</u>	<u>2005</u>	<u>Percent Increase (Decrease)</u>
<u>Revenues and Other Financing Sources:</u>			
General Fund	\$ 265,409*	\$ 242,150*	9.60
School Operating	<u>121,325*</u>	<u>117,181*</u>	<u>3.53</u>
Total	<u>386,734</u>	<u>359,331</u>	<u>7.62</u>
<u>Expenditures and Other Financing Uses:</u>			
General Fund	190,591*	175,574*	8.55
School Operating	<u>179,474*</u>	<u>174,523*</u>	<u>2.83</u>
Total	<u>370,065</u>	<u>350,097</u>	<u>5.70</u>
Excess (deficiency) funded to (from) fund balance	<u>\$ 16,669</u>	<u>\$ 9,234</u>	

*Excludes transfers between the General Fund and School Operating Fund.

The General Fund revenues and other financing sources increased by approximately \$23.3 million over fiscal year 2005. The significant increases in General Fund revenues for fiscal 2006 were in general property tax collections, sales and use tax, business license tax, meal tax and lodging and transit tax. Real estate tax collections increased by \$13.1 million as a result of a 18.9% increase in assessed values. The net levy for personal property tax revenues increased \$2.6 million or 8.52% from fiscal year 2005. During 2006, interest on investments increased by \$1.52 million due to the rise in short-term investment interest rates.

The School Operating Fund revenues increased by \$4.14 million over fiscal year 2005, attributable primarily to a \$1.62 million increase in state reimbursements for special education (SOQ) which is based on student enrollment. The State also required a mandatory 3.5% increase for teachers which accounted for \$1.2 million in salary reimbursements. Sales tax revenue which increased by \$900,000 over fiscal year 2005 is attributable to the city's investment in economic development projects.

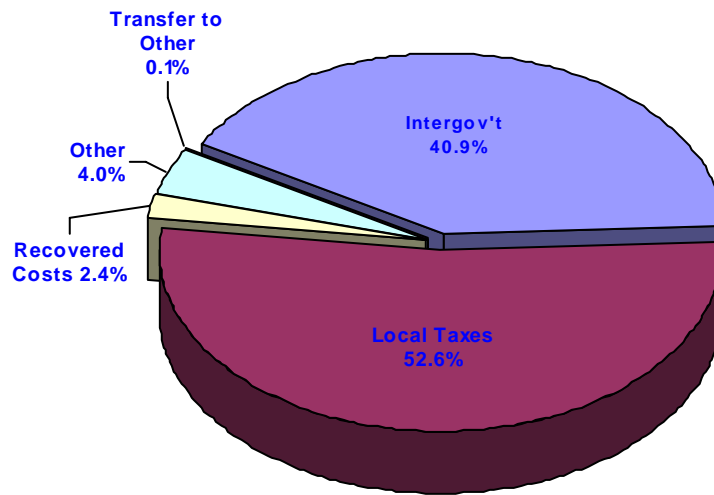
General Fund expenditures increased by approximately 8.55% over fiscal year 2005. The majority of this increase is due to performance increases averaging 3.6%, five (5) positions added to the Police Department, equipment to support low-level drug enforcement (last year of a five-year commitment) and funding of "Sold on Hampton" program. A Real Estate Officer was added to support "Crime and Grime and a City Planner and Redevelopment Manager for Planning were added in the Economic Development department. Funding was increased to the Convention and Visitor Bureau to provide marketing incentives to prospective Convention Center, maintain the Crossroads right-of-ways, and enhance the After-School program. Mandated increases were also made to HRT and the Regional Jail.

The School Board operating fund expenditures increased by \$5.0 million. However, the percentage of increase was only 2.84%. This increase was due primarily to a 7% salary increases for the teachers. Since this was the second year of the bi-annual budget that was adopted by the General Assembly for the schools, other expenditures were decreased to compensate for the salary increase.

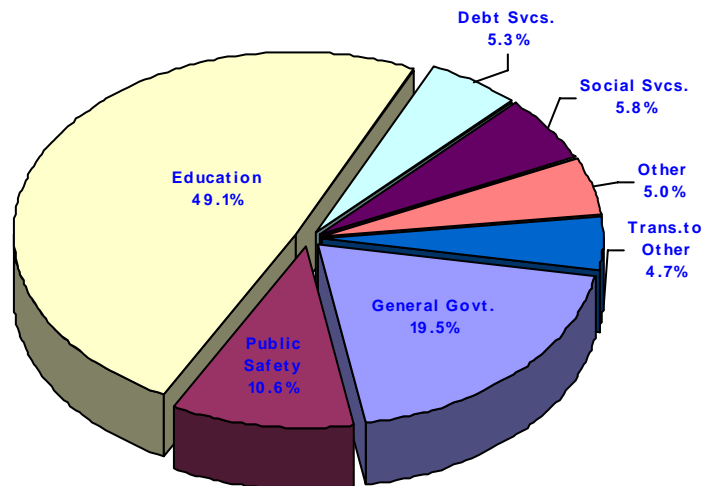
The graphs of the 2006 General Fund and School Operating Fund revenues and expenditures are as follows:

SEE FOLLOWING PAGE

Revenues \$386,734,546



Expenditures \$370,064,672



Financial Policies

The four (4) fiscal policies adopted by City Council in 1986 relate to general operating elements of the City. Since their adoption, these policies have been used as financial planning parameters during the annual budget process. The following summarizes the policy statement and actual results:

- a. Personal Service Costs - Any percent increase in the cost for permanent, full-time City staff positions shall be less than the increase in local revenues.

Local revenues increased by 9.8% from \$213.4 million in 2005 to \$234.4 million in 2006. Personal service costs (including fringe benefits) increased from \$90.3 million in 2005 to \$97.6 million or 8.1% in 2006. Actual was within the policy parameters.

- b. Non-Recurring Capital Expenditures from General Fund Resources - Not less than two percent (2%), but not more than six percent (6%) of estimated revenues per the annual operating budget (General Fund) shall be devoted to non-recurring capital expenditures.

Capital expenditures of the General Fund were \$6.1 million or 1.6% of estimated revenues (General Fund - \$249.9 million and School Operating Fund - \$124.4 million), which was not within the two policy parameters.

- c. Undesignated Fund Balance - Shall be maintained at a level of not less than seven and a half percent (8.1%) of estimated revenues in the annual operating budget (General Fund and School Operating Fund).

Undesignated fund balance at June 30, 2006 is \$52.2 million or 14% of estimated revenues, which was within the policy parameters.

The fourth policy relates to outstanding general obligation bonds and related debt service. That policy is discussed under the debt administration section of this transmittal letter.

Debt Administration

The City's internal fiscal policies related to debt administration are:

- a) General bonded debt shall not exceed 3% of the assessed value of real property. At June 30, 2006, this would amount to \$250.4 million. (The legal limit authorized by the Commonwealth of Virginia is 10%) or \$834.5 million; and,
- b) Related annual debt service cost will be the lesser of:
- a. Related annual debt service cost shall not exceed 11.5% of local revenues (\$234.4 million), which would amount to \$26.9 million for fiscal 2006, or
 - b. Related annual debt service cost shall not exceed 9% of total revenues (\$280.6 million), which would amount to \$25.2 million for fiscal 2006.

Note: For policy purpose local revenues include the General Fund plus solid waste and wastewater user fees of \$10.1 million and \$5.1 million, respectively.

On June 30, 2006 the City's total outstanding general bonded debt was \$198.0 million with related debt service cost (from General Fund sources) of \$20.1 million (\$11,538,331 principal and \$8,593,510 interest), which was within the policy parameters. For debt policy purposes, outstanding general long-term debt includes general bonded debt of \$198.0 million of which \$7,255,000 is taxable bonds issued on behalf of the Hampton School Board (a discretely presented component unit), plus general long-term notes (\$1.2 million); literary loans (\$1.0 million), plus Museum Revenue Bonds (\$10.6 million), less amounts deposited in a sinking fund to retire general obligation bonds due 2007 (\$10.7 million), less general obligation bonded debt related to the Refuse-Steam Plant (\$6.3 million).

The City's credit ratings are as follows: AA by Standard and Poor's, Aa2 by Moody's Investor Services and AA by Fitch Rating.

Cash Management

All of the City's cash is deposited with the City Treasurer, an elected officer. The responsibility for investing all City funds, except for retirement fund assets, is vested in the Department of Finance. City cash is invested primarily in overnight repurchase agreements, certificates of deposit, banker's acceptances; U.S. government-backed or guaranteed securities and other short-term investments permissible under the Virginia Security for Public Deposits Act.

At June 30, 2006, the various cash balances include cash on hand and on deposit in banks (including certificates of deposit) of \$15,722,330 and short-term investments consisting of repurchase agreements of \$32,393,790 and U.S. government securities of \$60,281,172.

Pension and Other Post Employment Benefits

The City maintains three fiduciary funds. The Pension Trust Fund (Hampton Employees' Retirement System) is the largest of the fiduciary funds. The primary retirement benefit is provided under the State sponsored Virginia Retirement System ("VRS"). The Hampton Employees' Retirement System ("HERS") is a City sponsored plan that provides a supplemental retirement benefit to participating employees. The City contributes to both pension plans for its employees, HERS and VRS. Each plan covers all full-time salaried employees who were hired prior to age sixty. As of July 1, 1984, HERS was closed to new entrants; any employees hired after June 30, 1984 are not eligible for membership in the Plan.

Contributions to HERS by the City and Component Unit School Board, were \$720,567 for the fiscal year ended June 30, 2006.

Contributions to VRS were as follows:

City employees	\$ 13,696,711
School System non-professional employees	<u>879,862</u>
Total	<u>\$ 14,576,573</u>

In addition, the State assumes responsibility for a portion of the employer's share of VRS contributions for certain teaching and administrative personnel of the School Board. The School Board's 2006 contribution to the VRS statewide teacher pool was \$12,433,219.

Effective June 1, 1980, the City elected to pay the employees' five percent share of VRS. Contributions made on behalf of employees between June 1, 1980 and June 30, 1990 is credited to the City's account and not to an individual employee's account. Effective July 1, 1990, such contributions are credited to the employee's account. Effective July 1, 1981, the School Board elected to pay the employees' five percent share of VRS. Effective July 1, 1994, all contributions are refundable to terminating City and School employees.

Risk Management Program

The City and City Schools are exposed to various risks of losses related to torts, property damage, loss of assets, errors and omissions, natural disasters and workers' compensation claims. Under the City's self-insurance program, a combination of commercial coverage and self-insurance is used to limit the City's exposure. The coverage limits are as follows:

	Limits Under Commercial Insurance <u>Self-Insurance</u>	<u>(After Self-Insurance Limit)</u>
Workmen's Compensation per occurrence (City and Schools)	Up to \$550,000	Up to \$25,000,000
General Liability per occurrence (City)	Up to \$1,000,000	Up to \$10,000,000
Property Damage per occurrence (City and Schools)	Up to \$50,000 (City); Up to \$100,000 (Schools)	Up to \$299,110,326 (City); Up to \$250,000,000 (Schools)
General Liability per occurrence (Schools)	Up to \$1,000,000 (Auto)	Up to \$10,000,000
Medical Claims	Up to \$100,000 per Individual in plan year (City)	Up to \$5,000,000 lifetime aggregate (City)

Proprietary Funds Operations

The City currently operates nine enterprise funds including the component units IDA and FADA and five internal service funds. The enterprise funds are set up to operate primarily from user fees charged to the general public, except the IDA and FADA funds. The IDA fund's primary revenue source is the sale of property held for resale to promote manufacturing and commercial development in the City and the FADA fund's primary source is funding from the General Fund. Four of the internal service funds are operated from fees charged to agencies and departments of the City. At the Refuse-Steam Plant (internal service fund), revenues are generated from sale of steam to NASA/Langley Research Center and Solid Waste Tipping Fees charged to the City according to an agreed-upon usage formula, as well as user fees charged to external customers. The City funds operating deficits in the enterprise funds by increasing the user-fees

or direct subsidy in the succeeding year. In fiscal year 2006, an operating subsidy of \$630,000 was made to the Hamptons Golf Course from the General Fund.

Fiduciary Operations

The City maintains three fiduciary funds. The Pension Trust Fund (Hampton Employees' Retirement System) is the largest of the fiduciary funds and there are two agency funds (Special Welfare and Other). The Hampton Employees' Retirement System (HERS) is a City sponsored plan that provides a supplemental retirement benefit to participating employees. The primary retirement benefit is provided under the State sponsored Virginia Retirement System. The two plans are more fully discussed under the Pension and Other Post Employment Benefits section of this transmittal letter.

Major Initiatives and Accomplishments

For the Year 2005-06:

During the fiscal year 2006, a plan was adopted for the redevelopment of the Coliseum Mall into the new Peninsula Town Center. The plan includes the demolition of the existing mall and redevelopment of approximately 900,000 square feet of retail, restaurant, entertainment and residential space. In addition, the project will include pedestrian-friendly roads, streetscapes, parks and sidewalks. The project should be finished within 36 months with a total investment of \$207.5 million. The developer will contribute a little under \$142 million and the Community Development Authority will account for \$65.5 million.

Hampton's Youth Civic Engagement Program won the prestigious Innovations in American Government Award which is often referred to as the "Oscars" of government. This program empowers the notion of young people as leaders in their schools, neighborhoods and city government. It also engages youth as advisers within a Neighborhood Youth Advisory Board, Superintendent's Advisory Board and secondary school advisory teams. The Youth Civic Engagement received a \$100,000 grant to disseminate information on the innovation to other communities.

Hampton was chosen to participate in the 2005 City Showcase at the National League of Cities' annual Congress of Cities conference that was held in December 2005. The Showcase is an annual display and celebration of innovative city programs from around the country, offering city leaders a chance to share ideas and experiences with the more than 3,000 delegates who attended the conference. Youth delegates from the Hampton Youth Commission showed the extensive involvement of local youth in Hampton's government and community. These efforts contributed to Hampton's selection as one of the 100 Best Communities for Young People by America's Promise.

Hampton libraries now offer a new digital library. Library patrons are able to browse, check out, and download digital Audiobooks and eBooks 24 hours a day online. Patrons can download everything from popular novels and classics, educational titles, and a wide variety of non-fiction, including business, history and self-help books by visiting www.hamptonpubliclibrary.org and installing the free software. Once at the website, patrons can browse several hundred titles and select up to three at a time. Materials are checked out by entering a library card number and downloading the digital books to a home

computer. When the lending period is up, the digital books are automatically returned and there are never any late fees.

Awards and Achievements

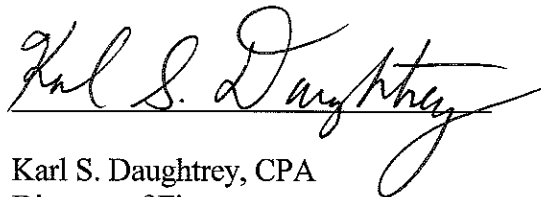
The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to governmental units that publish an easily readable and efficiently organized comprehensive annual financial report that meets all generally accepted accounting principals and applicable legal requirements. The City of Hampton has received this award for its comprehensive annual financial report for the fiscal year ended June 30, 2005.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements. This report will also be submitted to the GFOA to determine its eligibility for a certificate.

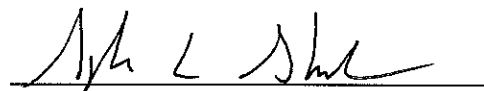
Acknowledgments

We acknowledge, with gratitude, the continued efficient and dedicated service rendered by the Finance Department staff and the assistance rendered by Witt Mares, PLC in keeping us in conformity with the rapidly changing accounting interpretations and principles. We also appreciate the responsible and progressive management program administered by your office and the members of the City Council.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Karl S. Daughtrey", written over a horizontal line.

Karl S. Daughtrey, CPA
Director of Finance

A handwritten signature in dark ink, appearing to read "Sylvia L. Shanahan", written over a horizontal line.

Sylvia L. Shanahan
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Hampton
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hampton, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hampton, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hampton's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hampton Redevelopment and Housing Authority as of December 31, 2005, which represent \$47,766,772 and \$23,534,298, respectively, of the total assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Downtown Hampton Development Partnership, Inc., the Healthy Families Partnership, Inc., or the Foundation of the Virginia Air and Space Center, which represent \$3,504,689 and \$1,291,750, respectively, of the total assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions on the basic financial statements insofar as they relate to the amounts included for the Hampton Redevelopment and Housing Authority for the aggregate remaining fund information, and the Downtown Hampton Development Partnership, Inc., the Healthy Families Partnership, Inc., or the Foundation of the Virginia Air and Space Center in the aggregate discretely presented component units, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hampton, Virginia, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 22 through 32 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 16, the City of Hampton, Virginia has retroactively reported major infrastructure assets, as allowed by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended and interpreted, as of June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 22, 2006 on our consideration of the City of Hampton, Virginia's internal Control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit and the audit of the other auditors were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hampton, Virginia's basic financial statements. The accompanying introductory section, statistical section, and financial information listed as combining and individual statements and supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. Federal awards with expenditures totaling \$21,832,175 expended by the Hampton Redevelopment and Housing Authority have been excluded from the Schedule of Expenditures of Federal Awards. Such expenditures have been subjected to the auditing procedures applied in the audit of the Hampton Redevelopment and Housing Authority's financial statement referred to above by the other auditors whose report thereon has been furnished to us. The introductory section and statistical information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Hampton, Virginia. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

With Mares, P.L.C.

Newport News, Virginia
November 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS



The following discussion and analysis of the City of Hampton's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the transmittal letter and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The General Fund, on a current financial resource basis, reported revenues in excess of expenditures and other financing sources and uses by \$14.9 million (Exhibit A-4) after making a \$59.9 million transfer to Hampton City Schools, \$6.1 million transfer to Capital Projects, \$8.1 million transfer to Enterprise Funds, \$3 million to Special Revenue Funds and \$19.7 million to Debt Service Funds.
- On a government-wide basis for governmental activities, the City's net assets increased by \$31.6 million (Exhibit A-2).
- In the City's business-type activities, on a government-wide basis, net assets increased by \$1.1 million (Exhibit A-2).
- The assets of the City of Hampton exceed its liabilities at the close of fiscal year 2006. The City's total net assets, excluding component units, on the government-wide basis, totaled \$1.1 billion at June 30, 2006. Of this amount, \$120.1 million is available for spending at the government's discretion (unrestricted net assets - Exhibit A-1).

USING THE FINANCIAL SECTION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Comprehensive Annual Financial Report consists of four (4) sections: introductory, financial, statistical and financial compliance reports for federal funds. The financial section consists of three (3) sections: *management's discussion and analysis; basic financial statements; and supplementary information.*

GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements are designed to provide the reader with a broad overview of the City of Hampton's finances, in a manner similar to a private-sector business. "Is the City as a whole better off or worse off as a result of this year's activities?" This is one of the most frequently asked questions about the City's finances. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. The Statement of Net Assets (Exhibit A-1) includes all of the City's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid, in the Statement of Net Activities (Exhibit A-2).

These two statements report the City's net assets and the changes in them. One can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors will need to be considered, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, found in Exhibits A-1 and A-2 respectively of this report, the City is divided as follows:

- Governmental activities – Most of the City's basic services are reported here, including general government, public safety, public works, human services, and culture and recreation. Property taxes, other local taxes, and state and federal grants finance most of these activities.
- Business-type activities – The City charges fees to customers to help it cover all or most of the cost of certain services it provides. The City's coliseum, golf courses, museum, convention center, sewer and trash collection operations are reported in the section. In addition, the City's blended component unit, Hampton Redevelopment and Housing Authority (HRHA), is reported here. HRHA's low rent housing operations are funded primarily by charges for rent and federal grants.
- Component units – The City includes seven separate legal entities in its report – the Hampton City School Board, Hampton Industrial Development Authority, Coliseum Central Business Improvement District, Inc., Downtown Hampton Development Partnership, Inc., Healthy Families Partnership, Inc., Foundation of the Virginia Air and Space Center, and Federal Area Development Authority. Although legally separate, these component units are important because the City is either financially accountable for them and provides operating and capital funding or their economic resources are either significant to the City or entirely for the benefit of the City or its constituents.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund statement presentation more familiar, although the focus is now on the City's most significant funds. The fund financial statements provide more information about the City's most significant funds – not the City as a whole. The City of Hampton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The City has three kinds of funds:

- Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view of the City's general government operations and the basic services it provides.

Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the future to finance the City's programs. Because this information does not address the long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

The basic governmental fund financial statements can be found in Exhibits A-3, A-4 and A-5 of this report.

The City of Hampton maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Economic Development Special Revenue Fund, Debt Service Fund and Capital Projects Fund, all of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements.

- Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

In fact, the City's enterprise funds (one type of proprietary fund) are its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flow. The City maintains seven individual enterprise funds and HRHA maintains one. Information is presented separately in the proprietary fund statement of net assets, the proprietary fund statement of revenues, expenses and changes in fund net assets and the proprietary fund statement of cash flows for the Convention Center, the Hamptons, Museum, Wastewater Management and HRHA funds, all of which are considered to be major funds. Data for the other three enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major enterprise funds is provided in the form of a combining statement.

The basic proprietary fund financial statements can be found in Exhibits A-6, A-7 and A-8 of this report.

The City uses five internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities. These funds provide for the accumulation of money to replace capital equipment used in the City's operations, maintenance services for the City's vehicle fleet, computer and telecommunication services, risk management and steam generation. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of these internal service funds is provided in the form of a combining statement.

The basic internal service fund financial statements can be found in Exhibits E-1, E-2 and E-3 of this report.

- **Fiduciary funds** – The City is the trustee, or fiduciary, for its employees' pension plan. All of the City's fiduciary activities are reported in separate statements of fiduciary net assets and statements of changes in fiduciary net assets. The City excludes these activities from the City's government-wide statements because the City cannot use these assets to finance its operations. Agency funds are City custodial funds used to provide accountability of client monies for which the City is custodian. The basic fiduciary funds financial statements can be found in Exhibits A-9 and A-10 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I
Summary of Statement of Net Assets (In Thousands)
June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2006	2005	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 198,528	\$ 193,781	\$ 63,337	\$ 64,009	\$ 261,865	\$ 257,790	\$ 44,120	\$ 48,010
Capital assets	653,810	155,538	201,854	201,827	855,664	357,365	41,096	42,637
Total assets	<u>852,338</u>	<u>349,319</u>	<u>265,191</u>	<u>265,836</u>	<u>1,117,529</u>	<u>615,155</u>	<u>85,216</u>	<u>90,647</u>
Other Liabilities	54,146	19,891	12,736	11,239	66,882	31,130	9,110	14,430
Long-term liabilities	180,655	224,002	120,914	124,140	301,569	348,142	21,831	21,368
Total liabilities	<u>234,801</u>	<u>243,893</u>	<u>133,650</u>	<u>135,379</u>	<u>368,451</u>	<u>379,272</u>	<u>30,941</u>	<u>35,798</u>
Net assets:								
Invested in capital assets, net of related debt	503,004	9,067	76,141	77,764	579,145	86,831	41,746	41,982
Restricted	18,163	24,779	31,572	33,771	49,735	58,550	12,566	16,497
Unrestricted	96,370	71,580	23,828	18,922	120,198	90,502	(37)	(3,630)
Total net assets	<u>\$ 617,537</u>	<u>\$ 105,426</u>	<u>\$ 131,541</u>	<u>\$ 130,457</u>	<u>\$ 749,078</u>	<u>\$ 235,883</u>	<u>\$ 54,275</u>	<u>\$ 54,849</u>

The City's combined net assets (which is the City's bottom line) increased by 218 %, or \$514 million to \$749 million, of which approximately 8% represents resources that are subject to external restrictions. Investment in capital assets, less any related debt used to acquire those assets that is still outstanding, represents 76% of net assets. These assets are used to provide services to citizens and consequently are not available for future spending. The City's unrestricted net assets – the part of net assets that can be used to finance day-to-day operations – were \$120.1 million.

Table II
Summary of Changes in Net Assets (In Thousands)
For the Fiscal Years Ended June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total Primary Government		Component Units	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenues:								
Program revenues:								
Charges for services	\$ 26,397	\$ 23,070	\$ 31,753	\$ 34,022	\$ 58,150	\$ 57,092	\$ 10,913	\$ 4,839
Operating grants and contributions	63,469	57,388	22,990	21,137	86,459	78,525	142,809	137,445
Capital grants and contributions	12,590	9,355	2,572	2,604	15,162	11,959	-	1,288
General revenues:								
Property taxes	138,079	123,937			138,079	123,937		
Other taxes	68,324	63,961			68,324	63,961	576	
Other	7,355	5,574	3,583	3,405	10,938	8,979	64,776	63,063
Total revenues	<u>316,214</u>	<u>283,285</u>	<u>60,898</u>	<u>61,168</u>	<u>377,112</u>	<u>344,453</u>	<u>219,074</u>	<u>206,635</u>
Expenses:								
General government	\$ 98,637	\$ 87,744	\$ -	\$ -	\$ 98,637	\$ 87,744	\$ 12,705	\$ 6,341
Public safety	43,839	41,701			43,839	41,701		
Highways and streets	9,943	2,665			9,943	2,665		
Sanitation	2,346	2,589	14,415	13,426	16,761	16,015		
Health	2,900	2,929			2,900	2,929		
Social services	28,578	25,438			28,578	25,438	150	129
Culture and recreation	15,820	16,257	30,344	24,115	46,164	40,372	119	942
Education - payment to School Board	59,929	56,361			59,929	56,361		
Educational	4,464	3,541			4,464	3,541	206,673	201,610
Capital improvements	-	11,232			-	11,232		
Housing			23,433	24,465	23,433	24,465		
Interest on long-term debt	9,723	7,616	-	-	9,723	7,616	-	-
Total expenses	<u>276,179</u>	<u>258,073</u>	<u>68,192</u>	<u>62,006</u>	<u>344,371</u>	<u>320,079</u>	<u>219,647</u>	<u>209,022</u>
Increase (decrease) in net assets before transfers and special items	40,035	25,212	(7,294)	(838)	32,741	24,374	(573)	(2,387)
Special items	-	(157)	-	695	-	538	-	(73)
Transfers	<u>(8,378)</u>	<u>(6,820)</u>	<u>8,378</u>	<u>6,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	31,657	18,235	1,084	6,677	32,741	24,912	(573)	(2,460)
Net assets, July 1, 2006 as restated	<u>585,880</u>	<u>87,191</u>	<u>130,457</u>	<u>123,780</u>	<u>716,337</u>	<u>210,971</u>	<u>54,848</u>	<u>57,308</u>
Net assets, June 30	<u>\$617,537</u>	<u>\$105,426</u>	<u>\$131,541</u>	<u>\$130,457</u>	<u>\$749,078</u>	<u>\$235,883</u>	<u>\$ 54,275</u>	<u>\$ 54,848</u>

GOVERNMENTAL ACTIVITIES

For the fiscal year ended June 30, 2006, revenues from governmental activities totaled \$316 million. Revenues from governmental activities increased by \$32.9 million; primarily in property taxes, operating grants and contributions and other taxes.

General property taxes, the City's largest revenue source, were \$138.1 million, an increase of \$14.1 million over the previous year. This revenue increase is primarily attributable to an increase in real property assessments of \$1.3 billion for fiscal year 2006. For fiscal year 2006, the real estate tax rate was reduced to \$1.20 per \$100 of assessed value in response to a projected 20% increase in real estate assessed values.

Program revenues are derived from the program itself and reduce the cost of the function to the City. Total program revenue for governmental activities was \$102.5 million. The most significant of these revenues is the revenue category "Operating Grants and Contributions". These revenues totaled \$63.5 million for the year ended June 30, 2006, an increase of \$6.1 million over the previous year. Operating grants and contributions represent primarily state and federal operating grants.

The other taxes revenue category, which includes taxes on general sales, utilities purchases, cigarettes, hotel rooms, restaurant meals, amusements, and business and automobile licenses, totaled \$68.3 million. This represents a \$4.4 million increase over the previous year. The City continues to see positive growth in this year from investments in economic development projects.

For the fiscal year ended June 30, 2006, expenses for governmental activities totaled \$276.2 million, excluding transfers and special items, an increase of \$18.2 million. Most of this increase was for compensation and benefits, debt service associated with the issuance of the fiscal year 2005 bond issue and the City's share of educational funding for the public school system.

BUSINESS-TYPE ACTIVITIES

Business-type activities generated revenues of \$60.9 million, a decrease of \$.27 million under the previous year.

Expenses for the City's business-type activities totaled \$68.2 million, an increase of \$6.2 million over the previous year. This increase is attributable to the opening of the City's Convention Center.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

For fiscal year 2006 the Economic Development fund's fund balance had an increase of \$3.8 million over fiscal year 2005. This was due to land sales transferred from the Industrial Development Authority.

The Wastewater Management Fund had a \$.6 million increase in net assets due to the increase in the number of sewer connection fees relating to new construction and neighborhoods connecting to the City sewer system. HRHA, a blended component, received a capital contribution during the fiscal year which contributed to their net asset increase of \$2.5 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, the City Council revised the budget on several occasions. City Council appropriated \$4,495,207 from designated fund balance to fund uncompleted projects in the Capital Projects Fund. These projects were funded from the General Fund in fiscal year 2005 but the appropriations lapsed at the end of the fiscal year. Under the City's budget savings program, City Council appropriated \$1,755,513 from designated fund balance, which was based on fiscal year 2005 departmental savings. In addition, the remaining budget savings of \$2,254,818 from prior fiscal years were rolled over from fiscal year 2005 to fiscal year 2006. City Council adopted a budget savings program whereby departments will retain 65 percent of their end of the fiscal year budget savings, 10 percent will be put into an innovations pool and the remaining balance of 25 percent will return to fund balance. Also, the City reappropriated grant, donation, and other revenues.

Actual expenditures and transfers were \$10 million below the final budget. A significant amount of this variance (\$5.4 million) occurred in the general government function, which was related to unused budget savings (\$3.1 million) under the City's budget savings program. A \$2 million variance was noted in transfers to other funds. The majority of this variance occurred from projects in the Capital Projects Fund that were at various stages of completion. Typically, funding for these projects is reappropriated in the subsequent fiscal year.

Revenues exceeded the budget by \$15.2 million. This positive variance was primarily generated by \$4.1 million in current real estate taxes, \$3.5 million in personal property taxes, \$1.7 million in interest on investments and \$1.4 million in recordation taxes. The City continues to see positive growth in the business license, sales and meals taxes from investments in economic development projects. Real estate assessments increased by approximately 18%.

CAPITAL ASSETS

The total percentage increase over fiscal year 2005 in the City's investment in capital assets for the current fiscal year is 139% or \$498.3 million. The increase of \$480.5 million, or 134% is for the infrastructure assets constructed before fiscal year 2002 that was added in the current fiscal year in accordance with the transition provisions of GASB 34. At the end of fiscal year 2006, the City had invested \$855.7 million in a variety of capital assets and infrastructure, as reflected in the following schedule.

Table III
Governmental Funds
Capital Assets (In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Non-depreciable assets:						
Land and land improvements	\$ 456,771	\$ 36,519	22,349	\$ 22,193	\$ 479,120	\$ 58,712
Construction in progress	11,936	22,135	4,290	1,722	16,226	23,857
Other capital assets:						
Buildings and improvements	73,041	72,112	170,701	168,971	243,742	241,083
Improvements other than buildings	66,630	52,568	5,312	4,595	71,942	57,163
Equipment and vehicles	63,391	58,192	22,328	21,052	85,719	79,244
Exhibits			10,843	10,808	10,843	10,808
Infrastructure	87,191	10,142	56,561	55,049	143,752	65,191
Accumulated depreciation	(105,150)	(96,131)	(90,530)	(82,563)	(195,680)	(178,694)
Total	<u>\$ 653,810</u>	<u>\$ 155,537</u>	<u>\$ 201,854</u>	<u>\$ 201,827</u>	<u>\$ 855,664</u>	<u>\$ 357,364</u>

Component Units	School Board		Industrial Development Authority		Coliseum Central Business Improvement District, Inc.	
	2006	2005	2006	2005	2006	2005
Non-depreciable assets:						
Land and land improvements	\$ 5,058	\$ 5,058	\$ 15,803	\$ 18,025	\$ -	\$ -
Construction in progress			4,501	3,139		
Other capital assets:						
Buildings and improvements	49,508	49,508				
Improvements other than buildings	310	310	383	383		
Infrastructure			2,545	1,773		
Equipment and vehicles	30,765	30,791	50	50	83	79
Accumulated depreciation	(67,558)	(66,243)	(680)	(570)	(70)	(62)
Total	<u>\$ 18,083</u>	<u>\$ 19,424</u>	<u>\$ 22,602</u>	<u>\$ 22,800</u>	<u>\$ 13</u>	<u>\$ 17</u>

	Downtown Hampton Development Partnership, Inc.		Healthy Families Partnership, Inc.		Total	
	2006	2005	2006	2005	2006	2005
Component Units, Continued						
Non-depreciable assets:						
Land and land improvements	\$ -	\$ -	\$ -	\$ -	\$ 20,861	\$ 23,083
Construction in progress					4,501	3,139
Other capital assets:						
Buildings and improvements	2	2			49,510	49,510
Improvements other than buildings	425	410			1,118	1,103
Infrastructure					2,545	1,773
Equipment and vehicles	81	72	12	12	30,991	31,004
Accumulated depreciation	(114)	(96)	(8)	(4)	(68,430)	(66,975)
Total	<u>\$ 394</u>	<u>\$ 388</u>	<u>\$ 4</u>	<u>\$ 8</u>	<u>\$ 41,096</u>	<u>\$ 42,637</u>

The City's fiscal year 2007 capital budget sets forth \$265.1 million to be spent during fiscal year 2007 through 2011 in various projects: \$116.9 million in school construction and maintenance, \$45.9 million in street and infrastructure maintenance, \$10.7 million in building maintenance, \$70.1 million in community enhancements; \$3.1 million in strategic property acquisition and \$3 million in Stormwater projects. Construction began and/or was completed for a variety of street projects, building maintenance and infrastructure, education and other projects. Additional information about the City's capital assets can be found in Note 6 to the financial statements.

LONG-TERM DEBT

At the end of fiscal year 2006, the City had \$198.1 million in outstanding general obligation bonds, a decrease of \$11.5 million or 5% under that held at June 30, 2005. More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

The Commonwealth of Virginia limits the amount of general obligation debt the City can issue to 10% of assessed valuation of real property. As of June 30, 2006, the City's aggregate general obligation indebtedness is \$634 million below this limit.

Table IV
City of Hampton
Change in General Obligation and Revenue Bonds (In Thousands)
June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation bonds	<u>\$ 201,420</u>	<u>\$ 213,102</u>	<u>\$ -</u>	<u>\$ -</u>	<u>201,420</u>	<u>\$ 213,102</u>
Revenue bonds			121,570	123,124	121,570	123,124
Less deferred amount for advance refunding	<u>(3,350)</u>	<u>(3,526)</u>	<u>(1,380)</u>	<u>(1,569)</u>	<u>(4,730)</u>	<u>(5,095)</u>
	<u>(3,350)</u>	<u>(3,526)</u>	<u>120,190</u>	<u>121,555</u>	<u>116,840</u>	<u>118,029</u>
Total primary government	<u>\$ 198,070</u>	<u>\$ 209,576</u>	<u>\$ 120,190</u>	<u>\$ 121,555</u>	<u>\$ 318,260</u>	<u>\$ 331,131</u>
Component Unit - Industrial Development Authority						
Revenue bonds					<u>\$ 10,966</u>	<u>\$ 11,398</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's staff and City Council considered many factors when developing the fiscal year 2007 budget. One of the major factors considered was the economy.

- Continued growth in the area is expected to continue to increase the tax base. As a result, the City's largest revenue sources, real estate and property taxes, will increase.
- Significant growth in real estate assessments coupled with some return on several of the City's retail economic development initiatives and savings from a review of the City's operations have generated enough revenue to support a real estate tax reduction of six-cents, from \$1.20 per \$100 of assessed value to \$1.14 per \$100 of assessed value.

The fiscal year 2007 approved budget for the General Fund is \$404,871,632, an 8.15 percent increase over the fiscal year 2006 budget. New budget initiatives are as follows: merit increases ranging from 0 to 5 percent for all employees and 5.4 percent increase in City's share of health insurance (\$3.1 million); increases to implement International Association of Assessing Officers study; restoration of several Quality of Life projects; and increases in debt services to pay for new redevelopment and school projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Karl S. Daughtrey, Director of Finance, 22 Lincoln Street, 7th Floor, Hampton, Virginia 23669, telephone (757) 727-6230.

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BASIC FINANCIAL STATEMENTS



City of Hampton
Statement of Net Assets
June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 97,284,759	\$ 14,389,741	\$ 111,674,500	\$ 4,591,501
Cash with fiscal agent	298,922		298,922	2,278,472
Investments	70,487,464	8,091,532	78,578,996	99,508
Accounts receivable	27,644,933	2,446,010	30,090,943	513,287
Lease receivable				16,884,609
Due from component unit	218,072	11,292	229,364	
Due from primary government				2,269,620
Internal balances	(211,875)	211,875		
Due from other governments				4,473,200
Prepaid items		894,978	894,978	11,138
Inventories	269,500	368,828	638,328	200,507
Temporarily restricted assets:				
Cash and cash equivalents		4,655,505	4,655,505	1,754,688
Accounts receivable				2,073,085
Investments		29,576,022	29,576,022	780,666
Notes receivable	1,890,036	211,654	2,101,690	1,061,206
Deferred charges	645,716	2,479,794	3,125,510	
Land held for resale				7,128,983
Capital assets not being depreciated	468,707,164	33,156,338	501,863,502	25,361,891
Capital assets, net of accumulated depreciation	185,103,408	168,697,820	353,801,228	15,733,949
Total assets	\$ 852,338,099	\$ 265,191,389	\$ 1,117,529,488	\$ 85,216,310
LIABILITIES:				
Accounts payable and other liabilities	\$ 18,055,606	\$ 1,925,284	\$ 19,980,890	\$ 1,290,424
Due to other governments		301,340	301,340	
Due to component units	2,269,620		2,269,620	
Due to primary government				229,364
Interfund loans payable	(57,292)	57,292		
Unearned revenue	3,307,661	4,523,941	7,831,602	7,288,415
Matured bonds and coupons payable	14,479		14,479	302,023
Current liabilities payable from restricted assets		3,656,205	3,656,205	
Notes and other long-term payables				
Due within one year	6,546,776	220,626	6,767,402	3,231,804
Due in more than one year	6,593,990	2,775,911	9,369,901	7,632,568
Bonds payable:				
Due within one year	24,008,979	1,623,901	25,632,880	461,015
Due in more than one year	174,061,451	118,565,836	292,627,287	10,505,452
Total liabilities	234,801,270	133,650,336	368,451,606	30,941,065
NET ASSETS:				
Invested in capital assets, net of related debt	503,003,508	76,141,453	579,144,961	41,746,016
Restricted for:				
Capital projects	5,155,197		5,155,197	
Debt service	11,773,267		11,773,267	
Other purposes	1,234,855	31,572,195	32,807,050	12,566,516
Unrestricted	96,370,002	23,827,405	120,197,407	(37,287)
Total net assets	617,536,829	131,541,053	749,077,882	54,275,245
Total liabilities and net assets	\$ 852,338,099	\$ 265,191,389	\$ 1,117,529,488	\$ 85,216,310

The notes to the financial statements are an integral part of this statement.

**City of Hampton
Statement of Activities
For the Year Ended June 30, 2006**

					Net (Expenses) Revenues and Changes in Net Assets			
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental Activities	Business-Type Activities	Total	
Primary government								
Governmental activities								
General Government	\$ 98,637,488	\$ 6,250,115	\$ 17,551,302	\$ -	\$ (74,836,071)	\$ -	\$ (74,836,071)	\$ -
Public safety	43,839,366	2,360,509	13,210,237		(28,268,620)		(28,268,620)	
Highways and streets	9,943,094		11,108,056	5,237,634	6,402,596		6,402,596	
Sanitation	2,346,204	9,459,760			7,113,556		7,113,556	
Health	2,899,845	2,251,696			(648,149)		(648,149)	
Human services	28,577,697	455,999	21,393,916		(6,727,782)		(6,727,782)	
Culture and recreation	15,820,133	2,867,250	2,415		(12,950,468)		(12,950,468)	
Education (payment to school district)	59,928,550				(59,928,550)		(59,928,550)	
Education and educational services	4,464,012	2,751,565	202,881		(1,509,566)		(1,509,566)	
Capital improvements				7,352,304	7,352,304		7,352,304	
Interest and fiscal charges	9,723,022				(9,723,022)		(9,723,022)	
Total governmental activities	276,179,411	26,396,894	63,468,807	12,589,938	(173,723,772)		(173,723,772)	
Business-type activities								
Sanitation	14,414,801	15,718,948	(575,470)	935,998		1,664,675	1,664,675	
Culture and recreation	30,344,047	14,059,944	2,917,462			(13,366,641)	(13,366,641)	
Housing	23,433,472	1,974,610	20,648,165	1,635,557		824,860	824,860	
Total business-type activities	68,192,320	31,753,502	22,990,157	2,571,555		(10,877,106)	(10,877,106)	
Total primary government	\$ 344,371,731	\$ 58,150,396	\$ 86,458,964	\$ 15,161,493	\$ (173,723,772)	\$ (10,877,106)	\$ (184,600,878)	
Component units								
Public school sysem	206,674,210	4,358,779	142,375,659					(59,939,772)
Industrial development	11,329,818	5,907,247						(5,422,571)
Federal area development	142,007							(142,007)
Business improvement	756,481	16,750						(739,731)
Downtown development	475,840	140,409	287,612					(47,819)
Healthy families	149,720	23,142	145,668					19,090
Museum support	119,376	466,158						346,782
Total component units	\$ 219,647,452	\$ 10,912,485	\$ 142,808,939					\$ (65,926,028)

		Net (Expenses) Revenues and Changes in Net Assets						
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental Activities	Business-Type Activities	Total	
Taxes								
Property taxes					\$ 138,078,848	\$ -	\$ 138,078,848	\$ -
Sales taxes					13,414,596		13,414,596	
Lodging, meals and amusement taxes					17,546,664		17,546,664	
Motor vehicle taxes					3,290,548		3,290,548	
Alcoholic beverage taxes					175,831		175,831	
Business license taxes					11,750,041		11,750,041	
Utility taxes					11,637,078		11,637,078	
Tobacco taxes					3,888,803		3,888,803	
Emergency 911 telephone taxes					2,033,992		2,033,992	
Recordation taxes					2,656,285		2,656,285	
Bank stock taxes					357,900		357,900	
Pari-mutual license taxes					113,463		113,463	
Short-term rental taxes					125,968		125,968	
Franchise License Taxes					1,314,857		1,314,857	
Mobile home titling tax					18,237		18,237	
Special assessment taxes								576,008
Payments to(from) City of Hampton								63,793,358
Investment earnings					6,693,541	1,783,092	8,476,633	965,706
Miscellaneous					661,047	1,800,164	2,461,211	16,717
Transfers					(8,377,608)	8,377,608		
Total general revenues, special items and transfers					205,380,091	11,960,864	217,340,955	65,351,789
Changes in net assets					31,656,319	1,083,758	32,740,077	(574,239)
Net assets - beginning, as restated (note 16)					585,880,510	130,457,295	716,337,805	54,849,484
Net assets - ending					\$ 617,536,829	\$ 131,541,053	\$ 749,077,882	\$ 54,275,245

The notes to the financial statements are an integral part of this statement.

CITY OF HAMPTON, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Special Revenue - Economic Development	Capital Projects	Debt Service	Other	Total
ASSETS						
Cash and cash equivalents	\$ 54,768,954	\$ 8,174,400	\$ 11,859,424	\$ 452,392	\$ 4,991,794	\$ 80,246,964
Cash with fiscal agent			181,826	14,479		196,305
Investments	10,402,851		48,765,109	11,319,504		70,487,464
Accounts receivable						
Taxes (net of allowance)	5,766,044					5,766,044
Due from other governments	9,980,653		1,500,000		2,723,205	14,203,858
Other	5,289,705	1,473,095	29,742	1,371	728,204	7,522,117
Notes receivable		2,290,035		6,260,641	57,292	8,607,968
Due from other funds	7,172,304	1,277,028	2,089,510		673,974	11,212,816
Due from component unit	142,818	5,284	35,993			184,095
Inventories	88,131					88,131
Total assets	<u>\$ 93,611,460</u>	<u>\$ 13,219,842</u>	<u>\$ 64,461,604</u>	<u>\$ 18,048,387</u>	<u>\$ 9,174,469</u>	<u>\$ 198,515,762</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	4,849,918	183,206	1,635,862		1,684,452	8,353,438
Accrued health insurance	3,257,139					3,257,139
Claims payable	623,654					623,654
Accrued liabilities	1,682,699				133,947	1,816,646
Due to other funds	6,207,760	339,306	1,520,770		1,291,179	9,359,015
Due to component units	2,179,547	5,463	84,610			2,269,620
Deferred revenue	5,182,197	2,346,472		6,260,641	2,461,430	16,250,740
Matured bonds and coupons payable				14,479		14,479
Total liabilities	<u>23,982,914</u>	<u>2,874,447</u>	<u>3,241,242</u>	<u>6,275,120</u>	<u>5,571,008</u>	<u>41,944,731</u>
Fund Balances						
Reserved for:						
Encumbrances	1,225,382					1,225,382
Hazmat	9,473					9,473
Debt service				11,773,267		11,773,267
Unreserved						
Designated for:						
Succeeding fiscal years	16,187,054					16,187,054
Specific projects - Permanent fund					61,244	61,244
Specific projects - Special Revenue funds		5,624,569			364,901	5,989,470
E911 system - Special Revenue funds					137,359	137,359
Construction projects			61,220,362			61,220,362
Undesignated, reported in:						
General fund	52,206,637					52,206,637
Special Revenue funds		4,720,826			3,039,957	7,760,783
Total fund balances	<u>69,628,546</u>	<u>10,345,395</u>	<u>61,220,362</u>	<u>11,773,267</u>	<u>3,603,461</u>	<u>156,571,031</u>
Total liabilities and fund balances	<u>\$ 93,611,460</u>	<u>\$ 13,219,842</u>	<u>\$ 64,461,604</u>	<u>\$ 18,048,387</u>	<u>\$ 9,174,469</u>	<u>\$ 198,515,762</u>

Reconciliation of Balance Sheet of Governmental Funds to the Statement of Activities (Exhibit A-2) Net Assets

Total fund balances of governmental funds	\$	156,571,031
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. (Note 6)		633,989,484
Other assets not available to pay current-period expenditures and, therefore, are deferred in the funds.		13,627,744
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		
Net assets on Combining Statement of Net Assets - Internal Service Funds		27,947,410
Internal charges eliminated in government-wide statements		(458,626)
Other liabilities not paid from current-period revenues are not reported in the funds for:		
Accrued interest		(3,162,880)
Interfund balances related to amounts eliminated in the Statement of Net Assets		(3,552,623)
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the funds. (Note 8)		(207,024,711)
Interfund loans are not due and payable in the current period and are not reported in the funds.		<u>(400,000)</u>
Net assets of governmental activities	\$	<u>617,536,829</u>

The accompanying notes are an integral part of the the financial statements.

CITY OF HAMPTON, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	Special Revenue -					
	General	Economic Development	Capital Projects	Debt Service	Other	Total
REVENUES						
General property taxes	\$ 139,280,495	\$ -	\$ -	\$ -	\$ -	\$ 139,280,495
Other local taxes	64,077,199				3,348,849	67,426,048
Intergovernmental revenues:						
From the Commonwealth of Virginia	25,999,416		7,257,024		7,596,563	40,853,003
From the Federal government	11,231,790		183,777		4,316,642	15,732,209
Permits, privilege fees and regulatory licenses	1,685,818					1,685,818
Fines and forfeitures	2,088,169					2,088,169
Revenues from use of money and property	2,594,719	1,879,186	2,530,802	573,214	397,426	7,975,347
Charges for services	6,040,513				3,866,230	9,906,743
Miscellaneous	3,026,309	6,533,410	89,591		1,150,039	10,799,349
Recovered costs	9,351,399			482,155		9,833,554
Total revenues	265,375,827	8,412,596	10,061,194	1,055,369	20,675,749	305,580,735
EXPENDITURES						
Current						
General government	72,066,147	3,962,905			6,641,612	82,670,664
Public safety	39,110,141				4,599,113	43,709,254
Highways and streets	2,587,283					2,587,283
Sanitation					2,346,204	2,346,204
Health	2,874,352					2,874,352
Human services	21,479,239				7,097,495	28,576,734
Culture and recreation	13,192,127				1,549,828	14,741,955
Education (payment to school district)	59,928,550					59,928,550
Education and educational services	2,294,520					2,294,520
Capital improvements			31,331,695			31,331,695
Debt Service						
Interest and fiscal charges				9,700,595		9,700,595
Principal retirement				11,938,451		11,938,451
Total expenditures	213,532,359	3,962,905	31,331,695	21,639,046	22,234,252	292,700,257
Excess (deficiency) of revenues over (under) expenditures	51,843,468	4,449,691	(21,270,501)	(20,583,677)	(1,558,503)	12,880,478
OTHER FINANCING SOURCES (USES)						
Notes payable issued				350,550		350,550
Payment to escrow agent				(350,550)		(350,550)
Transfers in	33,334		7,298,383	20,530,942	3,102,755	30,965,414
Transfers out	(36,986,865)	(648,827)	(811,368)		(895,961)	(39,343,021)
Total other financing sources and uses	(36,953,531)	(648,827)	6,487,015	20,530,942	2,206,794	(8,377,607)
Net changes in fund balances	14,889,937	3,800,864	(14,783,486)	(52,735)	648,291	4,502,871
Fund balances - beginning	54,738,609	6,544,531	76,003,848	11,826,002	2,955,170	152,068,160
Fund balances - ending	\$ 69,628,546	\$ 10,345,395	\$ 61,220,362	\$ 11,773,267	\$ 3,603,461	\$ 156,571,031

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
(Exhibit A - 2) Changes in Net Assets**

Net change in fund balances - total governmental funds	4,502,871
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.	
This is the amount by which new capital assets exceeded capital expenditures in the period. (Note 6)	11,227,318
In the statement of activities, the loss on disposal of capital assets is reported. However in the governmental funds, only the proceeds from sale increase financial resources. The change in net assets differs from the change in fund balance by the net book value of the capital assets disposed.	
Cost of capital assets disposed	(4,221,230)
Accumulated depreciation on capital assets disposed	677,404
Donated assets are not reported in the governmental funds but are reflected in the statement of activities	7,074,757
Revenues earned during the period that are not yet available are reported in the Statement of Activities, but not reported as revenues in the funds.	(1,115,053)
Proceeds from bond issuance and capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
Debt increase for compensated absences and net pension obligation	(508,457)
Proceeds from debt issuance	
Repayment of debt principal	12,111,670
Bond issuance costs	(36,410)
Interfund loans related to real property	
Repayment of interfund loans related to real property.	400,000
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net income of the internal service fund is reported with governmental activities.	1,228,022
Expenses incurred during the period related to liabilities that are still outstanding and not yet due at year-end for accrued interest	80,144
Amortization of premiums	235,283
Change in net assets of governmental activities	<u>\$ 31,656,319</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HAMPTON, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Intergovernmental:				
State funds	\$ 24,703,730	\$ 25,112,016	\$ 25,999,416	\$ 887,400
Federal funds (includes pass through)	11,208,704	12,582,317	11,231,790	(1,350,527)
Local taxes	192,967,322	192,967,322	203,357,694	10,390,372
Licenses and permits	1,571,972	1,571,972	1,685,818	113,846
Fines and forfeitures	1,736,223	1,736,223	2,088,169	351,946
Revenue from use of money and property	850,103	850,103	2,594,719	1,744,616
Charges for services	3,770,001	3,770,001	6,040,513	2,270,512
Recovered costs	9,221,030	9,221,030	9,351,399	130,369
Miscellaneous	2,412,970	2,412,970	3,026,309	613,339
Total revenues	<u>248,442,055</u>	<u>250,223,954</u>	<u>265,375,827</u>	<u>15,151,873</u>
EXPENDITURES				
Current:				
General government	77,365,360	77,435,261	72,066,147	(5,369,114)
Public safety	35,896,805	39,936,639	39,110,141	(826,498)
Highways and streets	2,416,490	2,587,315	2,587,283	(32)
Health	2,936,737	3,110,818	2,874,352	(236,466)
Human services	19,003,046	21,646,725	21,479,239	(167,486)
Culture and recreation	12,728,056	13,973,622	13,192,127	(781,495)
Education	62,730,394	62,855,303	62,223,070	(632,233)
Total expenditures	<u>213,076,888</u>	<u>221,545,683</u>	<u>213,532,359</u>	<u>(8,013,324)</u>
Excess of revenues over (under) expenditures	<u>35,365,167</u>	<u>28,678,271</u>	<u>51,843,468</u>	<u>23,165,197</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	33,334	33,334
Transfers out	(36,906,167)	(38,944,504)	(36,986,865)	(1,957,639)
Total other financing sources (uses)	<u>(36,906,167)</u>	<u>(38,944,504)</u>	<u>(36,953,531)</u>	<u>(1,990,973)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(1,541,000)</u>	<u>(10,266,233)</u>	<u>14,889,937</u>	<u>\$ 25,156,170</u>
Appropriations from fund balance	<u>1,541,000</u>	<u>11,491,615</u>		
Appropriations - encumbrances	<u>-</u>	<u>(1,225,382)</u>		
Budget - excess of revenues and appropriations from fund balance over (under) expenditures				
Fund balance - July 1	<u>-</u>	<u>-</u>	<u>54,738,609</u>	
Fund balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,628,546</u>	

The accompanying notes are an integral part of the financial statements.

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CITY OF HAMPTON, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-type Activities - Enterprise Funds							Governmental Activities
	Wastewater Management	The Hamptons	Museum	Convention Center	HRHA	Non-major Enterprise	Enterprise Total	Internal Service Funds
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 993,366	\$ 126,788	\$ 886	\$ -	\$ 5,503,606	\$ 7,765,095	\$ 14,389,741	\$ 17,037,795
Investments					8,091,532		8,091,532	
Restricted assets to be used to liquidate current liabilities								
Revenue bond indenture:								
Cash and cash equivalents				1,096,353			1,096,353	
Cash with fiscal agent			817,729	636,920			1,454,649	102,617
Accounts receivable	548,134		15,720	108,056	120,783	1,653,315	2,446,008	152,916
Notes and mortgage receivable	35,390				126,316		161,706	
Due from other funds		2,233	150,580	422,753		83,189	658,755	2,120,606
Due from component unit						11,292	11,292	33,977
Inventories	58,484	32,687	124,091	9,409	45,694	98,463	368,828	181,369
Prepaid expense					894,978		894,978	
Restricted assets:								
Revenue bond indenture:								
Cash and cash equivalents		253,809	1,496,550	284,549			2,034,908	
Investments		303,598		26,758,446			27,062,044	
Other:								
Cash and cash equivalents					69,595		69,595	
Investments					2,513,978		2,513,978	
Total current assets	1,635,374	719,115	2,605,556	29,316,486	17,366,482	9,611,354	61,254,367	19,629,280
Noncurrent assets:								
Notes and mortgage receivable					49,948		49,948	
Deferred charges		24,917	233,829	2,221,048			2,479,794	
Capital assets:								
Land and improvements	145,615	3,710,566	1,921,420	5,332,401	10,485,833	7,270,791	28,866,626	
Buildings and improvements	1,706,026	2,342,593	26,568,273	89,853,632	29,669,768	14,043,246	164,183,538	
Improvements other than buildings		9,316	6,800	3,039,519		2,256,734	5,312,369	14,023,199
Equipment	3,446,663	875,673	3,589,965	826,340	2,272,460	11,316,726	22,327,827	30,632,315
Construction in progress	622,146		1,047,035		2,021,873	598,659	4,289,713	6,073,825
Exhibits			10,842,725				10,842,725	
Infrastructure	56,561,316						56,561,316	
Less accumulated depreciation	(22,949,014)	(4,893,088)	(21,487,302)	(3,234,158)	(14,099,592)	(23,866,801)	(90,529,955)	(30,908,251)
Net capital assets	39,532,752	2,045,060	22,488,916	95,817,734	30,350,342	11,619,355	201,854,159	19,821,088
Total noncurrent assets	39,532,752	2,069,977	22,722,745	98,038,782	30,400,290	11,619,355	204,383,901	19,821,088
Total assets	\$ 41,168,126	\$ 2,789,092	\$ 25,328,301	\$ 127,355,268	\$ 47,766,772	\$ 21,230,709	\$ 265,638,268	\$ 39,450,368

	Business-type Activities - Enterprise Funds							Governmental Activities
	Wastewater Management	The Hamptons	Museum	Convention Center	HRHA	Non-major Enterprise	Enterprise Total	Internal Service Funds
LIABILITIES								
Current liabilities:								
Accounts payable	\$ 94,467	\$ 10,224	\$ -	\$ -	\$ 367,738	\$ 556,389	\$ 1,028,818	\$ 709,516
Accrued interest payable		9,150	201,719				210,869	74,106
Accrued leave	118,530	7,355	53,859		48,774	133,315	361,833	119,738
Due to other funds	35,864	2,605,704	773,000	7,433		1,036,128	4,458,129	175,033
Due to other governments					301,340		301,340	
Deferred revenue		1,955	337,359		3,620,958	563,669	4,523,941	38,950
Current portion of long-term debt		326,294	1,249,051	144,850	98,421	32,720	1,851,336	2,475,641
Current liabilities payable from restricted assets								
Accounts payable			529,973	642,709			1,172,682	
Accrued interest payable				2,483,522			2,483,522	
Other liabilities		19,583		3,095	188,048	113,038	323,764	58,228
Total current liabilities	248,861	2,980,265	3,144,961	3,281,609	4,625,279	2,435,259	16,716,234	3,651,212
Noncurrent liabilities:								
Claims payable								1,050,109
Accrued leave	52,171	23,001			427,322	201,266	703,760	147,193
Bonds payable		1,561,974	8,469,372	108,534,490			118,565,836	
Notes payable					873,073		873,073	6,654,444
Obligations under capital leases		1,229,869				19,692	1,249,561	
Total noncurrent liabilities	52,171	2,814,844	8,469,372	108,534,490	1,300,395	220,958	121,392,230	7,851,746
Total liabilities	301,032	5,795,109	11,614,333	111,816,099	5,925,674	2,656,217	138,108,464	11,502,958
NET ASSETS								
Invested in capital assets, net of related debt	39,532,752	(1,073,078)	12,770,494	(12,861,606)	26,205,947	11,566,944	76,141,453	12,872,863
Restricted	1,020,594	557,407	2,314,279	27,679,915			31,572,195	
Unrestricted	313,748	(2,490,346)	(1,370,805)	720,860	15,635,151	7,007,548	19,816,156	15,074,547
Total net assets	40,867,094	(3,006,017)	13,713,968	15,539,169	41,841,098	18,574,492	127,529,804	27,947,410
Total liabilities and net assets	\$ 41,168,126	\$ 2,789,092	\$ 25,328,301	\$ 127,355,268	\$ 47,766,772	\$ 21,230,709	\$ 265,638,268	\$ 39,450,368

Reconciliation of the Statements of Net Assets for Proprietary Funds to the Statement of Activities (Exhibit A-2)

Net assets of enterprise funds	\$ 127,529,804
Amounts reported for business-type activities in the Statement of Net Assets are different because:	458,626
Net revenue of internal service funds are allocated to funds receiving services	3,552,623
Interfund reimbursement for allocated overhead cost	\$ 131,541,053
Net assets business-type activities	

The notes to the financial statements are an integral part of this statement.

CITY OF HAMPTON, VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds		
	Wastewater Management	The Hamptons	Museum
Operating revenues:			
Charges for services	\$ 5,642,237	\$ 915,465	\$ 2,301,586
Federal revenues			1,196,654
Other			2,108,105
Total operating revenues	5,642,237	915,465	5,606,345
Operating expenses:			
Personnel services	1,764,808	399,220	1,596,742
Fringe benefits	528,487	96,571	424,451
Promoter's fees			
City-sponsored events			
Cost of goods sold	39,055	33,118	144,307
Utilities	139,044	49,141	340,192
Insurance	39,750	24,652	60,325
Operating supplies	512,886	125,756	1,865,318
Equipment rental	2,202	217,348	282,691
Equipment and building repairs	540,729	67,621	127,846
Telephone and postage	14,544	5,339	88,181
Amusement tax			
General expense	262,904	4,856	
Claims			
Landfill costs			
Contractual services	155,530	49,902	224,665
Indirect costs	456,000		
Housing assistance payments			
Depreciation and amortization	979,640	293,371	2,165,694
Total operating expenses	5,435,579	1,366,895	7,320,412
Operating income (loss)	206,658	(451,430)	(1,714,067)
Nonoperating revenues (expenses):			
Interest income	1,819	21,516	244,637
Interest and fiscal charges		(250,872)	(431,688)
Other	2,923		
Gain (loss) on sale of capital assets	(575,469)		
Net increase (decrease) in fair value of investments		(16,635)	
Total nonoperating revenues (expenses)	(570,727)	(245,991)	(187,051)
Income (loss) before capital contributions and transfers	(364,069)	(697,421)	(1,901,118)
Capital contributions	935,998		
Transfers in (out)		630,000	1,968,668
Change in net assets	571,929	(67,421)	67,550
Total net assets - beginning	40,295,165	(2,938,596)	13,646,418
Total net assets - ending	\$ 40,867,094	\$ (3,006,017)	\$ 13,713,968

Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets of Proprietary funds to the Statement of Activities (Exhibit A-2)

Change in Net assets - total enterprise funds

Amounts reported for business-type activities in the Statement of Activities are different because

Internal service funds are used by management to charge the costs of certain activities to individual funds

The net revenue of the internal service fund is reported with governmental activities:

Interfund reimbursement for allocated overhead costs

Change in Net assets - total enterprise funds

The notes to the financial statements are an integral part of this statement

Business-type Activities - Enterprise Funds				Governmental
Convention Center	HRHA	Non-major Enterprise	Enterprise Total	Internal Service Funds
\$ 2,035,108	\$ 1,974,610	\$ 18,884,496	\$ 31,753,502	\$ 18,984,342
	20,196,618		21,393,272	
	1,363,070		3,471,175	
2,035,108	23,534,298	18,884,496	56,617,949	18,984,342
1,078,361	1,713,219	3,817,850	10,370,200	2,980,127
300,485	466,983	1,194,143	3,011,120	910,223
		3,282,339	3,282,339	
		885,704	885,704	
66,111		212,720	495,311	2,928,021
810,043	869,897	340,264	2,548,581	315,806
94,989	177,566	289,079	686,361	1,783,063
583,881		731,906	3,819,747	445,298
5,996		42,755	550,992	93,730
133,101	1,312,889	1,359,195	3,541,381	812,818
53,451		38,989	200,504	761,891
		518,983	518,983	
357,374		208,633	833,767	111,333
				3,725,204
		3,776,647	3,776,647	490,048
176,596	3,433,036	748,638	4,788,367	257,764
		476,470	932,470	218,000
	14,399,644		14,399,644	
2,598,333	1,010,674	1,404,488	8,452,200	2,663,542
6,258,721	23,383,908	19,328,803	63,094,318	18,496,868
(4,223,613)	150,390	(444,307)	(6,476,369)	487,474
1,200,765	352,029		1,820,766	517,180
(5,368,073)	(49,564)	(4,037)	(6,104,234)	(370,806)
		46,876	49,799	20,113
	451,547		(123,922)	101,041
(21,039)			(37,674)	
(4,188,347)	754,012	42,839	(4,395,265)	267,528
(8,411,960)	904,402	(401,468)	(10,871,634)	755,002
	1,635,557		2,571,555	546,780
5,867,273		(88,334)	8,377,607	
(2,544,687)	2,539,959	(489,802)	77,528	1,301,782
18,083,856	39,301,139	19,064,294	127,452,276	26,645,628
\$ 15,539,169	\$ 41,841,098	\$ 18,574,492	\$ 127,529,804	\$ 27,947,410
			\$ 77,528	
			73,760	
			932,470	
			\$ 1,083,758	

The notes to the financial statements are an integral part of this statement

CITY OF HAMPTON, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2006

	Business-Type Activities- Enterprise Funds		
	Wastewater Management	The Hamptons	Museum
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 5,913,414	\$ 913,232	\$ 5,630,111
Grants received			
Cash payments to suppliers for goods and services	(2,650,649)	(683,726)	(3,926,000)
Cash payments to employees for services	(1,769,619)	(366,818)	(1,597,638)
Other receipts (payments)	2,923	-	-
Net cash provided by (used in) operating activities	1,496,069	(137,312)	106,473
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in from other funds		630,000	1,960,482
Cash paid to other funds			(43,000)
Net cash provided by (used in) noncapital financing activities	-	630,000	1,917,482
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,552,508)	(41,023)	(563,095)
Principal paid on revenue bond maturities and long-term debt		(302,275)	(1,129,999)
Interest paid on revenue bonds and long-term debt		(250,872)	(459,938)
Proceeds from issuance of revenue bonds and long-term debt			
Capital grants			
Proceeds from sale of capital assets			
Contributions and donations from private sources			
Net cash provided by (used in) capital and related financing activities	(1,552,508)	(594,170)	(2,153,032)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities			
Sale of investment securities			
Interest and dividends on investments	1,820	21,516	180,585
Net cash provided by (used in) investing activities	1,820	21,516	180,585
Net increase (decrease) in cash and cash equivalents (including restricted amounts)	(54,619)	(79,966)	51,508
Cash and cash equivalents (including restricted), July 1	1,047,985	460,563	2,263,657
Cash and cash equivalents (including restricted), June 30	\$ 993,366	\$ 380,597	\$ 2,315,165

Exhibit A-8

				Governmental Activities
Convention Center	HRHA	Non-major Enterprise	Totals	Internal Service Funds
\$ 2,036,217	\$ 2,342,580	\$ 19,728,977	\$ 36,564,531	\$ 19,794,033
	20,111,890		20,111,890	
(3,132,977)	(2,046,014)	(14,183,959)	(26,623,325)	(11,687,806)
(1,122,194)	(2,582,931)	(4,031,529)	(11,470,729)	(3,302,171)
<u>-</u>	<u>(17,057,855)</u>	<u>-</u>	<u>(17,054,932)</u>	<u>-</u>
<u>(2,218,954)</u>	<u>767,670</u>	<u>1,513,489</u>	<u>1,527,435</u>	<u>4,804,056</u>
5,867,273		(88,334)	8,369,421	18,397
			(43,000)	(47,422)
<u>5,867,273</u>	<u>-</u>	<u>(88,334)</u>	<u>8,326,421</u>	<u>(29,025)</u>
(1,363,827)	(2,683,279)	(1,567,148)	(7,770,880)	(6,768,083)
	(90,398)	(124,455)	(1,647,127)	(730,666)
(5,363,125)	(49,564)	(4,037)	(6,127,536)	(349,013)
	1,635,557		-	1,693,315
	451,547		1,635,557	-
			451,547	109,073
<u>(6,726,952)</u>	<u>(736,137)</u>	<u>(1,695,640)</u>	<u>(13,458,439)</u>	<u>(6,045,374)</u>
(42,893,021)	(4,348,117)		(47,241,138)	-
45,493,176			45,493,176	-
1,179,726	352,029		1,735,676	507,328
<u>3,779,881</u>	<u>(3,996,088)</u>		<u>(12,286)</u>	<u>507,328</u>
701,248	(3,964,555)	(270,485)	(3,616,869)	(763,015)
<u>1,316,574</u>	<u>9,537,756</u>	<u>8,035,580</u>	<u>22,662,115</u>	<u>17,903,427</u>
<u>\$ 2,017,822</u>	<u>\$ 5,573,201</u>	<u>\$ 7,765,095</u>	<u>\$ 19,045,246</u>	<u>\$ 17,140,412</u>

continued

	Business-Type Activities- Enterprise Funds		
	Wastewater Management	The Hamptons	Museum
Operating income (loss)	\$ 206,658	\$ (451,430)	\$ (1,714,067)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	979,640	293,371	2,165,694
Decrease (increase) in:			
Accounts receivable	278,209		23,766
Notes receivable	(7,032)		
Due from other funds	2,989	(2,233)	(8,186)
Due from component units			
Inventories	18,849	(6,838)	(1,476)
Prepaid expenses			(103,093)
Increase (decrease) in:			
Accounts payable	(5,078)	(4,217)	
Accrued leave	38,691	(15,148)	
Due to other funds	(19,780)	25,625	(43,000)
Other liabilities		892	
Deferred revenue		(335)	209,936
Current liabilities payable from restricted assets			(473,391)
Current portion of long-term debt reported as operating activity			
Due to other funds reported as nonoperating activities			
Accounts payable reported as nonoperating activities			-
Long-term accrued leave reported as operating activity		23,001	(896)
Long-term accrued insurance claims reported as operating activity			
Current portion of long-term debt reported as nonoperating activity			
Due from/to primary government reported as nonoperating activity			51,186
Accounts receivable reported as nonoperating activity			
Nonoperating revenues reported as operating revenues	2,923	-	-
Total adjustments	1,289,411	314,118	1,820,540
Net cash provided by (used in) operating activities	\$ 1,496,069	\$ (137,312)	\$ 106,473
Non-cash transactions affecting investing capital and related financing activities:			
Acquisition of capital assets through other funds capital contributions	\$ 935,998	\$ -	\$ -
Net decrease (increase) in fair value of investments	-	(16,635)	-
Total non-cash transactions	\$ 935,998	\$ (16,635)	\$ -

Exhibit A-8

				Governmental Activities
Convention Center	HRHA	Non-major Enterprise	Totals	Internal Service Funds
<u>\$ (4,223,613)</u>	<u>\$ 150,390</u>	<u>\$ (444,307)</u>	<u>\$ (6,476,369)</u>	<u>\$ 487,474</u>
2,598,335	1,010,674	1,404,488	8,452,202	2,663,542
1,109	367,970	68,233	739,287	85,928
			(7,032)	
25,321	340,916	164,128	522,935	1,508,608
		(270)	(270)	1,030
1,698	9,352	(32,853)	(11,268)	(53,362)
	(892,985)		(996,078)	
(418,699)	(340,186)	(10,897)	(779,077)	(735,131)
(29,521)	580	67,128	61,730	(2,338)
(11,895)	(277,896)	(294,790)	(621,736)	(153,131)
(16,838)	398,855	11,475	394,384	3,850
		534,278	743,879	38,950
			(473,391)	
				97,788
				(795,243)
				795,366
			22,105	
				842,883
(144,851)			(144,851)	
			51,186	
				(2,271)
-	-	46,876	49,799	20,113
<u>2,004,659</u>	<u>617,280</u>	<u>1,957,796</u>	<u>8,003,804</u>	<u>4,316,582</u>
<u>\$ (2,218,954)</u>	<u>\$ 767,670</u>	<u>\$ 1,513,489</u>	<u>\$ 1,527,435</u>	<u>\$ 4,804,056</u>
\$ -	\$ 1,635,557	\$ -	\$ 2,571,555	\$ 546,780
<u>(21,039)</u>	<u>-</u>	<u>-</u>	<u>(37,674)</u>	<u>-</u>
<u>\$ (21,039)</u>	<u>\$ 1,635,557</u>	<u>\$ -</u>	<u>\$ 2,533,881</u>	<u>\$ 546,780</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAMPTON, VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Hampton Employee's Retirement System	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 553,311	\$ 4,774,196
Investments:		
Stock mutual funds	108,554,435	
Bond mutual fund	56,526,548	
Receivables:		
Accrued interest	60	
Accounts	52,740	263
Property, plant, and equipment		
Office and operating equipment	2,550	
Less accumulated depreciation	(674)	
	<hr/>	<hr/>
Total Assets	165,688,970	\$ 4,774,459
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Deposits		\$ 909,880
Accounts payable and accrued liabilities	108,350	3,864,579
	<hr/>	<hr/>
Total liabilities	108,350	\$ 4,774,459
	<hr/> <hr/>	<hr/> <hr/>
NET ASSETS		
Assets held in trust for pension benefits and other purposes	\$ 165,580,620	
	<hr/> <hr/>	

The notes to the financial statements are an integral part of this statement.

CITY OF HAMPTON, VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2006

	Hampton Employees' Retirement System
ADDITIONS	
Investment income:	
Net appreciation in fair value of investments	\$ 8,456,220
Interest	729,227
Dividends	4,583,706
Other	81,070
Total investment expenses	13,850,223
Less investment expenses	(145,113)
Net investment earnings	13,705,110
Contributions	667,251
Total additions	14,372,361
DEDUCTIONS	
Benefits	13,706,605
Administrative expenses	178,910
Total deductions	13,885,515
Change in net assets	486,846
Net assets - beginning	165,093,774
Net assets - ending	\$ 165,580,620

The notes to the financial statements are an integral part of this statement.

City of Hampton
Combining Statement of Net Assets
Discretely Presented Component Units
June 30, 2006

	<u>Governmental Activities</u>	<u>Business -type Activities</u>	
	<u>School Board</u>	<u>Industrial Development Authority</u>	<u>Federal Area Development Authority</u>
ASSETS:			
Cash and cash equivalents	\$ 2,681,820	\$ 1,152,810	\$ -
Cash with fiscal agent		2,278,472	
Investments	10,500	89,008	
Accounts receivable	374,526	21,230	
Lease receivable		16,884,609	
Due from primary government	1,639,860	129,760	500,000
Due from other governments	4,473,200		
Inventories	200,507		
Prepaid items			
Temporarily restricted assets:			
Cash and cash equivalents		1,754,688	
Accounts receivable			
Investments		173,741	
Notes receivable		1,061,206	
Deferred charges			
Land held for resale		7,128,983	
Capital assets not being depreciated	5,058,366	20,303,525	
Capital assets, net of accumulated depreciation	13,024,588	2,298,566	
	<u>\$ 27,463,367</u>	<u>\$ 53,276,598</u>	<u>\$ 500,000</u>
LIABILITIES:			
Accounts payable and other liabilities	\$ 1,154,811	\$ 67,607	\$ -
Due to primary government	45,477	41,880	142,007
Deferred revenue	554,026	6,730,014	
Matured bonds and coupons payable		302,023	
Notes and other long-term payables			
Due within one year	1,320,322		
Due in more than one year	7,512,568		
Bonds payable:			
Due within one year		461,015	
Due in more than one year		10,505,452	
	<u>10,587,204</u>	<u>18,107,991</u>	<u>142,007</u>
NET ASSETS:			
Invested in capital assets, net of related debt	18,082,954	22,602,091	
Restricted for:			
Other purposes		12,566,516	
Unrestricted	(1,206,791)		357,993
	<u>16,876,163</u>	<u>35,168,607</u>	<u>357,993</u>
Total net assets	<u>\$ 27,463,367</u>	<u>\$ 53,276,598</u>	<u>\$ 500,000</u>

Business -type Activities				
Coliseum Central Business Improvement District, Inc.	Downtown Hampton Development Partnership, Inc.	Healthy Families Partnership, Inc.	Foundation of the Virginia Air & Space Center	Total
\$ 357,074	\$ 188,328	\$ 209,821	\$ 1,648	\$ 4,591,501
				2,278,472
				99,508
95,090	17,754	4,687		513,287
				16,884,609
				2,269,620
				4,473,200
				200,507
6,814	4,324			11,138
				1,754,688
			2,073,085	2,073,085
			606,925	780,666
				1,061,206
				7,128,983
				25,361,891
12,678	394,230	3,887		15,733,949
<u>\$ 471,656</u>	<u>\$ 604,636</u>	<u>\$ 218,395</u>	<u>\$ 2,681,658</u>	<u>\$ 85,216,310</u>
\$ 40,641	\$ 27,064	\$ 301	\$ -	\$ 1,290,424
	4,375			229,364
				7,288,415
				302,023
	60,000		1,851,482	3,231,804
	120,000			7,632,568
				461,015
				10,505,452
40,641	211,439	301	1,851,482	30,941,065
12,678	214,230	3,887	830,176	41,746,016
				12,566,516
418,337	178,967	214,207		(37,287)
431,015	393,197	218,094	830,176	54,275,245
<u>\$ 471,656</u>	<u>\$ 604,636</u>	<u>\$ 218,395</u>	<u>\$ 2,681,658</u>	<u>\$ 85,216,310</u>

The notes to the financial statements are an integral part of this statement.

City of Hampton
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets						
	Expenses	Charges for services	Operating grants and contributions	School Board	Industrial Development Authority	Federal Area Development Authority	Coliseum Central Business Improvement District, Inc.	Downtown Hampton Development Partnership, Inc.	Healthy Families Partnership, Inc.	Foundation of the Virginia Air and Space Center	Total
Governmental Type Activities											
Public school system	\$ 206,674,210	\$ 4,358,779	\$ 142,375,659	\$ (59,939,772)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (59,939,772)
Business type Activities											
Industrial development	11,329,818	5,907,247			(5,422,571)						(5,422,571)
Federal area development	142,007					(142,007)					(142,007)
Business improvement	756,481	16,750					(739,731)				(739,731)
Downtown development	475,840	140,409	287,612					(47,819)			(47,819)
Healthy families	149,720	23,142	145,668						19,090		19,090
Museum support	119,376	466,158								346,782	346,782
Total Component Units	<u>\$ 219,647,452</u>	<u>\$ 10,912,485</u>	<u>\$ 142,808,939</u>	<u>(59,939,772)</u>	<u>(5,422,571)</u>	<u>(142,007)</u>	<u>(739,731)</u>	<u>(47,819)</u>	<u>19,090</u>	<u>346,782</u>	<u>(65,926,028)</u>
Special Assessment Taxes							395,878	180,130			576,008
Payments (to)/from City of Hampton				59,928,550	2,983,227	500,000	381,581				63,793,358
Investment earnings					921,367		49		2,280	42,010	965,706
Miscellaneous					1,622		10,754	4,341			16,717
Total general revenues, special items and transfers				<u>59,928,550</u>	<u>3,906,216</u>	<u>500,000</u>	<u>788,262</u>	<u>184,471</u>	<u>2,280</u>	<u>42,010</u>	<u>65,351,789</u>
Changes in net assets				(11,222)	(1,516,355)	357,993	48,531	136,652	21,370	388,792	(574,239)
Net assets - beginning				16,887,385	36,684,962		382,484	256,545	196,724	441,384	54,849,484
Net assets - ending				<u>\$ 16,876,163</u>	<u>\$ 35,168,607</u>	<u>\$ 357,993</u>	<u>\$ 431,015</u>	<u>\$ 393,197</u>	<u>\$ 218,094</u>	<u>\$ 830,176</u>	<u>\$ 54,275,245</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hampton, Virginia (the "City"), was incorporated on March 30, 1908. Its boundaries were extended on July 1, 1952 through the annexation of Elizabeth City County and the Town of Phoebus. The City has operated under its current charter since December 16, 1952. Hampton is a full-service city of 145,500 people. It is comprised of 72 square miles situated at the southeastern tip of the lower Peninsula of Virginia.

The City operates under the Council-Manager form of government. The City's legislative power is vested in the elected seven-member City Council. City Council appoints the City Manager who is the Chief Executive and Administrative Officer of the City.

The following is a summary of the significant accounting policies.

Reporting Entity

The accompanying financial statements conform to Generally Accepted Accounting Principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB).

The City follows GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). As a result of adopting GASB No. 34, the Comprehensive Annual Financial Report includes:

Management's Discussion and Analysis (MD&A)

MD&A is a narrative introduction and analytical overview of the City's financial activities similar to the analysis provided by publicly traded companies in their annual reports.

Government-wide and Fund Financial Statements

The government-wide reporting model (Exhibits A-1 & A-2) includes financial statements prepared using full accrual accounting for all government activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructures, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

The basic financial statements are composed of both government-wide and fund financial statements. The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, report information on all of the nonfiduciary activities of the City and its component units. As a general rule, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for services. The primary government is reported separately from

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

certain legally separate component units for which the primary government is financially accountable.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds: the General, Economic Development Special Revenue, Debt Service and Capital Projects. The major enterprise funds are: Convention Center, The Hamptons, Virginia Air and Space Center Museum, Wastewater Management and Hampton Redevelopment and Housing Authority (blended component unit) funds.

Statement of Net Assets

The Statement of Net Assets (Exhibit A-1) is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense in the Statement of Activities. The net assets of a government will be displayed in three categories – invested in capital assets net of related debt, restricted and unrestricted.

Statement of Activities

The government-wide Statement of Activities (Exhibit A-2) reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expenses of the individual functions are compared to the revenues directly generated by the function through user fees or intergovernmental grants.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and grants and contributions that are restricted to meet the operational and/or capital requirements of a particular function or segment. Taxes and other items that are not included in program revenues are classified as general revenues.

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budget and have a keen interest in following the actual financial progress of their government over the course of the year. The City revises its original

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

budget over the course of the year for a variety of reasons. Under the new reporting model, governments will continue to provide budgetary comparison information in their annual reports and provide an original to final budget comparison to actual revenue and expenditure results.

As required by GAAP, these statements present the funds, organizations, activities and functions of the City of Hampton, Virginia (the primary government) and its component units. The component units discussed in the following Section are included in the City's reporting entity because of the significance of their operational and financial relationship with the City, as defined in GASB No. 14, *The Reporting Entity*, and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

Individual Component Unit Disclosures

Hampton Redevelopment and Housing Authority

The Hampton Redevelopment and Housing Authority (HRHA) is a legally separate public corporation, which is established under the laws of the Commonwealth of Virginia to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development.

HRHA operates on a calendar year basis (January 1 to December 31) which differs from the City's fiscal year (July 1 to June 30). It is included as a part of the City's primary government (Exhibits A-6, A-7 and A-8) because HRHA's seven-member governing board is substantially the same as Hampton's City Council. HRHA is required to make annual payments in lieu of taxes to the City. The City is not fiscally responsible for HRHA's operating funds or debt.

A copy of the separately issued financial statements for HRHA may be obtained by writing to HRHA, 22 Lincoln Street, Hampton, Virginia 23669 or by calling (757) 727-6337.

Discretely Presented Component Units (Exhibits A-11 and A-12)

The discretely presented component unit columns in the combined financial statements include the financial data of the City's other component units. The discretely presented component units are: Hampton City School Board, Hampton Industrial Development Authority, Healthy Families Partnership, Inc., Coliseum Central Business Improvement District, Inc., Downtown Development Partnership, Foundation of the Virginia Air and Space Center and Federal Area Development Authority (FADA). They are reported as a separate column to emphasize that they are legally separate units.

Hampton City School Board

The Hampton City School Board (School Board) oversees the operations of and establishes educational policies for the City's public school system. Seven School Board members are

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

elected by the voters of the City of Hampton, Virginia. The School Board has no power to levy taxes or issue bonds. Its budget is subject to approval by the City Council; however, Council only approves, rejects, or modifies the single amount requested by the School Board. City Council does not have the authority to modify individual line items of the School Board's budget. The School Board has complete discretionary authority to expend the amount appropriated by the City. The Hampton City School Board, a legally separate organization, is included in the financial statements as governmental fund type, discretely presented component unit. The School Board does not issue separate financial statements (Exhibits G-1 - G-3).

Hampton Industrial Development Authority

The Hampton Industrial Development Authority (IDA) is a legally separate public corporation established under the Industrial Development and Revenue Bond Act of the Commonwealth of Virginia, together along with ordinances adopted by the City Council. The IDA was established to promote and develop trade within the City by inducing manufacturing, industrial and commercial enterprises to locate or remain in the City. The IDA is included in the City's reporting entity because the City is able to impose its will on the IDA by appointment of the governing body. In addition, the City Council funds IDA's operating budget and receives all revenues derived from IDA land sales. Therefore, the IDA is financially dependent on the City. The IDA does not issue separate financial statements.

Healthy Families Partnership, Inc.

The Healthy Families Partnership, Inc. (HFP) is a legally separate non-stock corporation that provides programs and services that benefit families and children of the City. Programs offered by the HFP support goals which include promoting optimal child development and preventive care during early childhood; enhancing parenting skills; improving family support systems; and reducing undesirable health outcomes such as poor immunization rates, child abuse and neglect and repeat teenage pregnancies. The HFP derives financial support from the City in the form of in-kind services. HFP is included in the City's reporting entity because the resources of HFP are for the direct benefit of the City's constituents and the City can impose its will in the ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations of the organization. A copy of the separately issued financial statements for HFP may be obtained by writing to HFP, 100 Old Hampton Lane, Hampton, Virginia 23669 or by calling (757) 727-1882.

Coliseum Central Business Improvement District, Inc.

The Coliseum Central Business Improvement District, Inc. (Coliseum BID) was incorporated on January 22, 1996, to promote, develop and market the Coliseum Central Business District in the City. The District was created by action of the City Council under provisions of the *Code of Virginia*. An additional tax is assessed on commercial real estate located in the District to provide funds for the economic development of the District. The City Council approved the renewal of the Coliseum BID through June 2007. Coliseum BID is included in the City's

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

reporting entity because the resources of Coliseum BID are for the direct benefit of the City's constituents. A copy of the separately issued financial statements for Coliseum BID may be obtained by writing to Coliseum BID, 2021 Cunningham Drive, Suite 101, Hampton, Virginia 23666 or by calling (757) 826-6351.

Downtown Hampton Development Partnership, Inc.

The Downtown Hampton Development Partnership, Inc. (Downtown Hampton) was incorporated on August 15, 1995, to promote, develop, and market the Downtown Hampton Business Improvement District. The District was created by action of the City Council under provisions of the *Code of Virginia*. The City assesses an additional tax on the value of the commercial real estate located in the District to provide funds for the economic development of the District. The City Council approved the renewal of Downtown Hampton through June 2007. Downtown Hampton is included in the City's reporting entity because the resources of Downtown Hampton are for the direct benefit of the City's constituents. A copy of the separately issued financial statements for Downtown Hampton may be obtained by writing to Downtown Hampton Development Partnership, 756 Settlers Landing Road, Hampton, Virginia 23669 or by calling (757) 727-1271.

Foundation of the Virginia Air and Space Center

The Foundation of the Virginia Air and Space Center (Foundation) was formed in 1992 after construction of the Virginia Air and Space Center. The Foundation exists to carry out the charitable, educational, literary, and scientific purposes of the Center. The Foundation is included in the City's reporting entity because the resources of the Foundation are significant to the City. A copy of the separately issued financial statements for the Foundation may be obtained by writing to the Foundation of the Virginia Air and Space Center, 600 Settlers Landing Road, Hampton, Virginia 23669 or by calling (757) 727-0900.

Federal Area Development Authority

The Federal Area Development Authority (FADA) is a separate and distinct legal entity from the City of Hampton and is a political subdivision of the Commonwealth of Virginia with ordinances adopted by the City Council. FADA was created to enable more efficient cooperation with the federal government during the closure of Fort Monroe that is pursuant to the Federal Defense Base Closure and Realignment Act of 1990, also known as the "BRAC Statute". The creation of the FADA will benefit the citizens of the City by promoting increased employment opportunities, strengthening the economic base and increasing tax revenues as a result of development or redevelopment of that area in the City. Members of the FADA Board are appointed by the City Council and the City funds the FADA's operating budget. The FADA does not issue separate financial statements.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Other Related Organizations

The financial statements of the following public organizations, commissions, authorities and boards are not included in the reporting entity. These organizations are political subdivisions created under the laws of the Commonwealth of Virginia. Their governing boards are appointed, at least in part, by the City. The City's responsibility in most instances is limited to pro rata representation through appointments to the governing boards. The individual governing boards of the organizations appoint management, establish budgetary control and are accountable for their own fiscal affairs including deficits, debt service, operating costs, etc. The City is not able to impose its will on these organizations and the organizations neither provide a financial benefit nor pose a financial burden on the City.

Peninsula Airport Commission

The Peninsula Airport Commission (PAC) operates the Newport News/Williamsburg International Airport. Board membership is allocated among and appointed by the various localities. The PAC's operating and capital expenditures, including debt service, are financed by its operations and contributions from the participating localities. The City has no budgetary authority, is not responsible for deficits or debt service and cannot set rates for services or uses of the airport facilities.

Other

There are certain other agencies and commissions that service the City of Hampton and surrounding localities whose board membership is allocated among and appointed by the various localities. These agencies include: Hampton Roads Transit (HRT), Hampton Roads Planning District Commission (HRPDC), Virginia Peninsulas Public Service Authority (VPPSA), Hampton Roads Economic Development Alliance (HREDA) and the Peninsula Council for Workforce Development (PCFWD). Expenditures of these agencies are financed by federal and state grants, fees, and contributions. During the year ended June 30, 2006, the City provided operating and capital support of \$2,150,736 to HRT, \$159,898 to HRPDC, \$8,800 to VPPSA, \$255,568 to HREDA and \$74,908 to PCFWD.

Jointly Governed Organizations

Hampton-Newport News Community Services Board

The Hampton-Newport News Community Services Board (CSB) operates as an agent for the Cities of Hampton and Newport News in the establishment and operation of community mental health, mental retardation and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the *Code of Virginia*, relating to the Virginia Department of Mental Health and Mental Retardation. The CSB designates its own management and adopts its own budget. The operations are financed principally by state and federal funds. The City provided operating

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

support of \$1,335,938 to the CSB during fiscal year 2006.

Basis of Accounting

The basis of accounting applied to a fund and the discretely presented component units is determined by the measurement focus. Basis of accounting refers to when revenues, expenditures (governmental) and expenses (proprietary), transfers and the related assets and liabilities are recognized in the accounts and reported in the financial statements.

All Governmental Funds and the Permanent Fund are accounted for using the current financial resources measurement focus. This means that generally only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenues and other financing resources) and decreases (expenditures and other financing uses) in net current assets.

The government-wide financial statements, all Proprietary Funds, the Pension Trust Fund, and Discretely Presented Component Units – Industrial Development Authority, Federal Area Development Authority, Coliseum Central Business Improvement District, Inc., Downtown Hampton Development Partnership, Inc., Healthy Families Partnership, Inc., School Board and Foundation of the Virginia Air and Space Center are accounted for using the economic resources measurement focus. This measurement focus is the same as that used by commercial enterprises. All assets and liabilities associated with the activity are included on their balance sheets. Their operating statements present increases (revenues) and decreases (expenses) in total assets.

The modified accrual basis of accounting is followed for the General, Special Revenue, Debt Service, Capital Projects and Permanent Fund and the Discretely Presented Component Unit - School Board.

Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance operations of the current year. Revenues considered susceptible to accrual consist primarily of property taxes, certain grants and sales and utility taxes. Accordingly, real and personal property taxes are recorded as revenue when levied and billed, net of allowances for uncollectible amounts. Property taxes not collected within 45 days after year-end are reflected as deferred revenue. Revenues from federal, state, and other grants, used to fund specific City expenditures, are recorded at the time of receipt of notification of the grant. For financial statement purposes, such amounts are reduced by the unexpended authorizations, resulting in revenues being recognized only at the time of the related expenditures. Revenues from general purpose grants are recognized in the period to which the grant applies. Sales and utility taxes collected by the State or utility companies and subsequently remitted to the City are recognized as revenue upon collection by the State or utility company, which is generally in the month preceding receipt by the City. Licenses, permits, fines and rents are recorded as revenue when received.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Expenditures, other than interest and principal on long-term debt, are recorded as the related liabilities are incurred, if measurable. Interest and principal on long-term debt are recognized when due. The accrued portion of vested sick and annual leave is recorded on the government-wide statements.

The accrual basis of accounting is followed in the government-wide financial statements, the Internal Service, Enterprise, Pension Trust and Agency Funds and the Discretely Presented Component Units. Under this method of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Generally operating revenues and expenses result from providing services and producing and delivering goods in connection with the proprietary fund's principal operations.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The City's procedures for establishing the budgetary data reflected in the financial statements for the General Fund and School Operating Fund are as follows:

1. Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to June 1, the budget is legally enacted through the passage of an ordinance.
4. The City Manager or his designee is authorized to transfer budgeted amounts within departments within the General Fund. Revisions that alter the total appropriations for a department must be approved by City Council. Therefore, the level of control at which expenditures may not exceed appropriations is the total expenditure level of each department. Transfers within the School Operating Fund are under the control of the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and School Operating Fund.
6. Budgets for the General and School Operating Funds are legally adopted on a basis consistent with Generally Accepted Accounting Principles.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Budgeted amounts are as originally adopted or as amended by City Council and the School Board during fiscal 2006. Unencumbered appropriations lapse at year-end in the General and School Operating Funds. Appropriations which are encumbered at year-end are carried forward into the following year's appropriation to allow liquidation of the encumbrances.

An annual budget is not adopted for the Debt Service Fund because effective control is alternatively achieved through general obligation bond indenture provisions. Annual budgets are not employed for Special Revenue Funds and the Capital Projects Fund because each program grant or capital project is approved separately.

General Property Tax Calendar

Real property is assessed at fair market value as of July 1 of each year; personal property and public service corporation properties (real and personal) are assessed as of January 1 of each year. Taxes are levied on a fiscal-year basis for real property and a calendar year basis for personal property. Taxes are due and payable in two equal installments on June 5 and December 5. The City Treasurer mails tax bills to the taxpayers on May 5 for tax payments due June 5 and on November 5 for tax payments due December 5.

Penalties are assessed at 10% of the tax due for real estate and personal property which are not paid by the due date. Interest at 10% per year for real and personal property is charged on unpaid tax installments. A lien is recorded on all real property with delinquent real estate taxes not paid within three years.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and School Operating Fund. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Investments

Investments of the Hampton Employees' Retirement System are stated at fair value. Investments of the Debt Service Fund consist of U.S. Treasury Bonds and are stated at fair value. All other investments are generally stated at fair value, except for short-term cash equivalents, which are stated at cost.

Receivables

Receivables of the General Fund are stated net of an allowance for uncollectible taxes of \$1,868,793. Management has determined that the allowance is sufficient to provide for any

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

losses that may be sustained on realization of the accounts receivable.

Inventories

The inventories reflected in the Enterprise Funds and School Funds consist principally of food items and items held for resale and are valued at cost (first-in, first-out). The Hampton Redevelopment and Housing Authority Fund's inventory consists of consumable supplies valued at cost. The General Fund's inventory consists of consumable supplies valued at cost (first-in, first-out). The Internal Service Funds' inventories consist principally of expendable items held for consumption and are valued by the average-cost method. Inventories are recognized as expenditures when consumed or sold.

Land Held for Resale

Land held for resale by the Industrial Development Authority is stated at cost or, if donated, at fair market value as of the date received. Development costs of the IDA are added to the cost of the land when incurred. Total land and development costs are allocated to total saleable acreage under development and are charged to expenses on a prorated basis when the land is sold.

Interfund Activity

Activity between funds that represents lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (current portion) or "advances to/from other funds" (non-current portion of interfund loans). Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as internal balances (see note 3).

Restricted Assets

Restricted assets represent the following invested assets set aside in Convention Center, The Hamptons (Golf Course), Virginia Air and Space Center (Museum), HRHA, and discretely presented component units – IDA, and Foundation.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

	Convention Center	The Hamptons	The Museum	HRHA	Total Enterprise Funds	Component Unit - IDA	Component Unit - Foundation
Restricted Assets							
Cash:							
Operating and Maintenance							
Account	\$	\$ 4,142	\$ 122,450	\$	\$ 126,592	\$	\$ 606,925
Operating Reserve Fund	1,733,273				1,733,273		
Bond Fund		249,667	817,729		1,067,396		
Debt Service Reserve Fund	284,549		1,374,100		1,658,649	958,095	
Bass Pro Incentive Fund					-	796,593	
Accounts Receivable					-		2,073,085
Due from Primary Government							
Investments:					-		
Operating Reserve Fund	15,385,328				15,385,328		
Bond Fund	3,655,228				3,655,228		
Debt Service Reserve Fund	7,717,890	303,598			8,021,488	173,741	
Business Activities				2,194,216	2,194,216		
Local Government Programs				1,609	1,609		
Section 8				170,452	170,452		
Low-Rent Housing Fund				217,296	217,296		
	<u>\$ 28,776,268</u>	<u>\$ 557,407</u>	<u>\$ 2,314,279</u>	<u>\$ 2,583,573</u>	<u>\$ 34,231,527</u>	<u>\$ 1,928,429</u>	<u>\$ 2,680,010</u>

The assets for Convention Center, The Hamptons, Museum and IDA are classified as restricted since their use is limited by the Bond Trust Indenture. The Foundation's assets are donations restricted for their capital campaign.

Governmental Activities Capital Assets

Capital outlays in the General, Special Revenue and Capital Projects Funds are recorded as expenditures and capitalized (recorded and accounted for) in the government-wide financial statements to the extent the City's capitalization threshold is met. The threshold is \$2,500 for assets other than computer equipment and infrastructure. Computer equipment having a cost of \$1,000 or more is capitalized. In accordance with GASB 34, public domain ("infrastructure") assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets dedicated directly to public service, have been capitalized since fiscal year 2002 to the extent such improvements met the capitalization threshold, generally \$10,000. Infrastructure assets acquired in earlier fiscal years have been capitalized in accordance with transition provisions of GASB No. 34. Depreciation is recorded on general capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Buildings and improvements	10 - 40 years
Improvements other than buildings	10 - 25 years
Equipment and vehicles	3 - 20 years
Infrastructure	15 - 75 years

All capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Historical cost of self-constructed infrastructure includes direct labor, direct materials and overhead costs allocated based on direct labor hours charged to the project. Gifts and contributions are recorded at fair market value upon receipt. When governmental fund assets are sold or retired, their costs are removed from the accounts and the proceeds, if any, are reflected as revenues.

Enterprise Funds' and Internal Service Funds' Capital Assets

Enterprise and Internal Service Fund's property and equipment are stated at cost. Cost of self-constructed infrastructure includes direct labor, direct materials and overhead costs allocated based on direct labor hours charged to the project. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	10 - 40 years
Improvements other than buildings	15 - 50 years
Equipment and vehicles	3 - 20 years
Exhibits	7 - 10 years
Infrastructure	5 - 75 years

The Landfill in the Solid Waste Fund is recorded at cost and amortized by the straight-line method based on tonnage received in relation to total expected capacity.

When Enterprise and Internal Service Fund's capital assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts and the gains or losses are reflected in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

The City capitalizes interest costs on funds borrowed to finance the construction of capital assets in its proprietary funds. During fiscal year ended June 30, 2006, no interest costs were capitalized.

The capital assets of the discretely presented component units – Coliseum Central Business Improvement District, Inc., Downtown Hampton Development Partnership, Inc., Healthy Families Partnership, Inc., Industrial Development Authority, and the School Board are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Deferred Revenue

Deferred revenue consists of the following:

Primary Government:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Revenue Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
Property taxes accrued but not collected within 45 days	\$ 4,268,055	\$	\$	\$	\$
Advance property tax collections	857,381				
Accounts receivable			174,436		
Notes receivable		6,260,641	2,290,035		
Advance ticket sales			7,294	547,029	
Unearned grant funds			2,286,626		
Unearned rental income			49,511		
Unearned miscellaneous income	56,761			3,976,912	38,950
Total Primary Government	<u>\$ 5,182,197</u>	<u>\$ 6,260,641</u>	<u>\$ 4,807,902</u>	<u>\$ 4,523,941</u>	<u>\$ 38,950</u>

Discretely Presented Component Unit:

	<u>School Board</u>	<u>Downtown Hampton Development Partnership, Inc.</u>	<u>Industrial Development Authority</u>
Unearned grant funds	\$ 493,551	\$	\$
Tuition	60,475		
Other		4,375	6,730,014
Total Discretely Presented Component Unit	<u>\$ 554,026</u>	<u>\$ 4,375</u>	<u>\$ 6,730,014</u>

Fund Equity

Reserves - The fund balance reserved for the employee retirement system represents net assets available to fund future plan benefits. Reserves for encumbrances represent amounts which have been contractually committed for future years. The fund balance reserved for debt service represents assets deposited in a bond sinking fund. The reserve for Courthouse maintenance represents amounts legally imposed and assessed as part of the costs incidental to criminal and traffic cases which can only be used for the construction, renovation or maintenance of the Courthouse or Jail. The reserve for Hazmat represents amounts recovered by the City pursuant to the Code of Virginia as reimbursement for costs expended by the City for certain hazardous materials and emergency clean-up activities. All funds collected shall be used for hazardous materials emergencies and to recoup costs associated with a response to a hazardous materials emergency.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Designated Fund Balances - Fund balance designations are established to indicate tentative plans for financial resource utilization in future periods. Designation of fund balance under the General Fund represents amounts appropriated by City Council for the succeeding fiscal year. Designations in the Special Revenue Funds, the Capital Projects Fund, and Component Unit - School Board represent unexpended appropriations at June 30, 2006 authorized to be expended in fiscal year 2007 or when the applicable projects are completed.

Net Assets - Enterprise Funds and Internal Service Funds

The net assets at June 30, 2006 in the Enterprise Funds are as follows:

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>
Coliseum Fund	\$ 9,355,768	\$
The Woodlands Golf Course	2,079,960	
The Hamptons	(3,006,017)	
Museum	13,713,968	
Solid Waste	7,138,764	
Convention Center Fund	15,539,169	
HRHA	41,841,098	
Wastewater Management	40,867,094	
Industrial Development Authority		35,168,607
Federal Area Development Authority		357,993
Coliseum Central Business Improvement District, Inc.		431,015
Downtown Hampton Development Partnership, Inc.		393,197
Healthy Families Partnership, Inc.		218,094
Foundation of the Virginia Air & Space Center		830,176

The deficit in The Hamptons Fund is primarily attributable to accumulated depreciation charges on capital assets and/or current year net operating losses. Net operating losses before depreciation are usually funded in the succeeding year by operating transfers from the General Fund or by increases in user charges.

The net assets in the Internal Service Funds are as follows:

Equipment Replacement	\$ 16,490,520
Fleet Management	440,695
Risk Management	6,120,602
Refuse-Steam Plant	3,966,427
Information Technology	929,166

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued:

Pension Expense

The City has pension plans covering substantially all City and School employees. Pension costs are accrued using actuarially determined rates, which include current costs plus amortization of prior service costs. The City's policy is to fund pension costs accrued for all plans.

Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused annual and sick leave benefits, which will be utilized in future periods or will be paid to employees upon separation from City service. In governmental fund types, the cost of annual and sick benefits is recognized when payments are made to employees. The current and long-term liability for accrued annual and sick leave benefits at June 30, 2006 has been reported in the government-wide statements, representing the City's commitment to fund such costs from future operations. Proprietary fund types accrue annual and sick leave benefits in the period they are earned. Such benefits are included in accounts payable and other liabilities in the government-wide statements. In prior years, the General, Federal Grants, Community Development, EXCEL (Environmental Excellence for Community Enjoyment and Livability), Enhanced Emergency Telephone Service (E911), and Stormwater Management Funds have been used to liquidate the liability for compensated absences.

Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, proprietary fund types follow all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989.

2. BASIS OF PRESENTATION - FUND ACCOUNTING:

The accompanying financial statements include all funds and component units of the City of Hampton.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise each fund's assets, liabilities, fund equity, revenues and expenditures or expenses. The following is a description of the funds included in the accompanying financial statements.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

2. BASIS OF PRESENTATION - FUND ACCOUNTING, Continued:

General Fund

The General Fund accounts for all revenues and expenditures of the City, which are not accounted for in the other funds. Revenues are primarily derived from general property taxes, other local taxes, revenues from other governmental units and recovered costs.

A significant part of the General Fund's revenue is transferred to other funds, principally to fund the operations of the City of Hampton Public Schools and debt service requirements of the City.

Expenditures include, among other things, those for general government, public safety, highways and streets, sanitation, welfare, health and culture and recreation.

Special Revenue Funds

Special Revenue Funds (Exhibits C-1 & C-2) account for the revenues and expenditures related to the operations of the Federal Grants, Community Development, Economic Development, EXCEL, Enhanced Emergency Telephone Service, Stormwater Management, Pembroke Complex and the Law Library Fund's.

The Federal Grants Fund accounts for revenues and expenditures of all federal grants awarded to the City except the Community Development entitlement. Federal grants received by the Component Unit - School Board are included in the discretely presented component unit.

The Community Development Fund accounts for revenues and expenditures related to entitlements received by the City under the Community Development Act of 1974, administered by the U.S. Department of Housing and Urban Development.

The Economic Development Fund was established to finance the costs of capital investments, capital improvements, capital expenditures and any other approved expenditures, which will assist economic development and improve the physical appearance of the City. Revenues are from unrestricted land sales, special assessments, projects financed by the fund and unrestricted rental receipts.

The EXCEL Fund (Environmental Excellence for Community Enjoyment and Livability) accounts for capital investments, capital improvements, program grants and/or other City Council approved expenditures which improve social, recreational or cultural opportunities for the citizens of Hampton. The fund receives 100% of the revenues generated by the City's cable franchise fees. City Council makes appropriations to the Fund from the General Fund whenever the franchise fee revenues are not sufficient to finance approved projects and activities.

The Enhanced Emergency Telephone Service (E911) Fund accounts for revenues and expenditures associated with establishing and maintaining an enhanced 911 emergency dispatch system. Revenues are derived from a special tax imposed and levied upon purchasers of

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

2. BASIS OF PRESENTATION - FUND ACCOUNTING, Continued:

telephone services in the City.

The Stormwater Management Fund accounts for revenues and expenditures related to maintaining the storm drainage system and the quality of our surface waters. Revenues are derived from a service charge levied on all developed property in the City.

The Pembroke Complex Fund accounts for the receipts and disbursements related to the operations of the Pembroke Community Service Center. The facility is owned by the Hampton Redevelopment and Housing Authority and maintained by the City from the rents charged to the various tenants of the building.

The Law Library Fund accounts for receipts and disbursements of funds specifically held for the purpose of purchasing law books.

Permanent Fund

Permanent funds are a type of fiduciary fund used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the City or its citizens.

The Pearl I. Young Fund accounts for interest earned on principal funds and authorized disbursements of funds bequeathed to the City to purchase City bus stop shelters.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general obligation debt of the City. Primary resources of the Debt Service Fund are derived from transfers from the General Fund and the proceeds of any refunding bond issues.

Capital Projects Fund

The Capital Projects Fund accounts for all general City and School construction projects which are financed through general obligation debt and general operating funds, with the exception of projects related to Enterprise and Internal Service Funds.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of operating and providing services to the general public are completely or partially financed from user charges; or (b) where the governing body has determined that the periodic determination of net results of operations is appropriate for management control and accountability.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

2. BASIS OF PRESENTATION - FUND ACCOUNTING, Continued:

The City's Enterprise Funds account for the operations of the Hampton Coliseum, The Woodlands Golf Course, The Hamptons (Golf Course), Solid Waste, the Virginia Air and Space Center (Museum), Convention Center, Wastewater Management, Coliseum BID, Hampton Redevelopment and Housing Authority (HRHA, blended component unit), the Federal Area Development Authority and the Hampton Industrial Development Authority (discretely presented component units). Revenues of the Hampton Coliseum, Woodlands Golf Course, The Hamptons (Golf Course), the Solid Waste Fund and the Wastewater Management Fund are derived primarily from user fees.

The Museum's operating revenue is derived from donations and user fees, including \$1,196,654 in federal funds from the National Aeronautics and Space Administration for educational/user fee subsidy. The fund accounts for all operational and Revenue Bond Trust activity.

The Convention Center Fund revenues are derived from user fees and meal and lodging taxes.

The Industrial Development Authority's income is derived from appropriations from the City, fees, land sales, and rental of property. The IDA is included in the financial statements as a discretely presented component unit.

The Federal Area Development Authority's income is derived from appropriations from the City, grants from the Federal Government and eventually, land sales, and rental of property. The FADA is included in the financial statements as a discretely presented component unit.

HRHA, a legally separate organization, has been included in the financial statements as a blended component unit (see Note 1 on reporting entity). HRHA is a public corporation that operates and administers public housing and other urban development programs in the City.

HFP, a legally separate organization, has been included in the financial statements as a discretely presented component unit (see Note 1 on reporting entity). HFP is a public corporation that provides programs and services that benefit families and children of the City.

Coliseum BID, a legally separate organization, has been included in the financial statements as a discretely presented component unit (see Note 1 on reporting entity). Coliseum BID is a public corporation that promotes and markets the Coliseum Central Business District within the City and derives its funding from taxes assessed to the businesses in the coliseum area.

Downtown Hampton, a legally separate organization, has been included in the financial statements as a discretely presented component unit (see Note 1 on reporting entity). Downtown Hampton is a public corporation that promotes and markets the Downtown Hampton Business Improvement District and derives its funding from taxes assessed to the businesses in the downtown Hampton area.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

2. BASIS OF PRESENTATION - FUND ACCOUNTING, Continued:

The Foundation, a legally separate organization, has been included in the financial statements as a discretely presented component unit (see Note 1 on reporting entity). The Foundation is a public corporation that carries out the charitable, educational, educational, literary and scientific purposes of the Virginia Air and Space Center.

Internal Service Funds

The Internal Service Funds account for the services provided to substantially all City departments or other governmental units on a cost-reimbursement basis. The City's internal service funds include Equipment Replacement, Fleet Management, Risk Management, Refuse-Stream Plant and Information Technology.

The Equipment Replacement Fund owns all on-road rolling stock of the City and leases the equipment to the various operating departments. Leasing income is used for replacement of the equipment.

The Fleet Management Fund accounts for the operation of the City's central automotive maintenance service facility.

The Risk Management Fund accounts for the costs of providing insurance coverage and certain self-insured liabilities of the City and the School Board.

The Refuse-Stream Plant Fund accounts for the operation of the City's steam generating plant. Revenues are derived from the sale of steam to the United States Government, a solid waste disposal fee (tipping fee) charged to the Solid Waste Fund and user fees charged to external customers.

The Information Technology Fund accounts for the costs of providing the following services: personal computer support, printing and mailing, and telecommunications services.

Trust and Agency Funds

The Trust and Agency Funds consist of the Hampton Employees' Retirement System, Special Welfare, and Other Agency Funds.

The Hampton Employees' Retirement System (Exhibit A-9 & A-10) accounts for the revenues and expenditures related to the City-sponsored retirement plan, which is administered by a board of trustees appointed by City Council.

The Special Welfare Fund (Exhibit F-1) accounts for receipts and disbursements for special assistance programs and activities sponsored by the City's social services department.

The Other Agency Fund accounts for receipts and disbursements related to the Peninsula Drug Task Force.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

3. INTERFUND BALANCES:

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” or “advances to/from other funds” in the fund statements or as “internal balances” in the Statement of Net Assets. All residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided on reimbursable expenditures occur and (2) payments between the funds are made.

Interfund Receivables and Payables

<u>Primary Government:</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 7,172,304	\$ 6,207,760
Special Revenue:		
Economic Development	1,277,028	339,306
Non-Major Governmental Funds	673,974	1,291,179
Capital Projects	2,089,510	1,520,770
Enterprise:		
Convention Center	422,753	7,433
The Hamptons	2,233	2,605,704
Museum	150,580	773,000
Wastewater Management	-	35,864
Non-Major Enterprise Funds	83,189	1,036,128
Internal Services	2,120,606	175,033
Total Primary Government	<u>\$ 13,992,177</u>	<u>\$ 13,992,177</u>

Interfund Receivables and Payables

<u>Component Unit:</u>	<u>Due From</u>	<u>Due To</u>
School Board Operating	\$ 1,612,654	\$ 6,289
Student Activities	16,236	
Food Services	6,289	398,965
Special Revenue:		
Shenandoah Life		500
Reimbursable Projects		1,229,425
Total Component Unit	<u>1,635,179</u>	<u>1,635,179</u>
Total Reporting Entity	<u>\$ 15,627,356</u>	<u>\$ 15,627,356</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

3. INTERFUND BALANCES, Continued:

Receivable and payable balances between the primary government and component units are as follows:

	Due From Primary Government	Due To Component Unit	Due From Component Unit	Due To Primary Government
Primary Government - General Fund	\$	\$ 2,179,547	\$ 142,818	\$
Primary Government - Economic Development		5,463	5,284	
Primary Government - Capital Projects Fund		84,610	35,993	
Primary Government - Coliseum				
Primary Government - Solid Waste			11,292	
Primary Government - Fleet Management			33,949	
Primary Government - Information Technology			28	
Component Unit - School Board Operating Fund	1,639,860			45,477
Component Unit - IDA	129,760			41,880
Component Unit - FADA	500,000			142,007
Total	<u>\$ 2,269,620</u>	<u>\$ 2,269,620</u>	<u>\$ 229,364</u>	<u>\$ 229,364</u>

The primary government entered into an interfund loan with its blended component unit, HRHA. The primary government is indebted to HRHA for a note in the amount of \$2,000,000 for the acquisition of real property. On June 30, 2006, the outstanding balance was \$400,000. This interfund loan was eliminated on the Statement of Net Assets.

HRHA entered into an interfund loan with the primary government, under which HRHA is indebted to the primary government for a note in the amount of \$100,000 related to real property. On June 30, 2006, the outstanding balance was \$57,292 on the records of the primary government and \$62,697 was outstanding on the records of HRHA at December 31, 2005. The interfund loan was eliminated to the extent of \$57,292 on the Statement of Net Assets.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

3. INTERFUND BALANCES, Continued:

Individual fund interfund transfers for the primary government were made for operating as well as capital purposes. Interfund transfers for the year ended June 30, 2006 are as follows:

<u>Primary Government:</u>	<u>Transfer From</u>	<u>Transfer To</u>
General	\$ 33,334	\$ 36,986,865
Special Revenue:		
Economic Development		648,827
Non-Major Governmental Funds	3,102,755	895,961
Capital Projects	7,298,383	811,368
Debt Service	20,530,942	
Enterprise:		
Convention Center	5,867,273	
Museum	1,968,668	
The Hamptons	630,000	
Wastewater Management		
Non-Major Enterprise Funds		88,334
Internal Services		
Total Primary Government	<u>\$ 39,431,355</u>	<u>\$ 39,431,355</u>
<u>Component Unit:</u>	<u>Transfer From</u>	<u>Transfer To</u>
School Board Operating	\$ 260,000	
Student Activities	281,236	265,000
Food Services		260,000
Special Revenue:		
Shenandoah Life		
Reimbursable Projects		16,236
Total Component Unit	<u>541,236</u>	<u>541,236</u>
Total Reporting Entity	<u>\$ 39,972,591</u>	<u>\$ 39,972,591</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

3. INTERFUND BALANCES, Continued:

Related party transactions between the primary government and component units are as follows:

	Payments From Primary Government	Payments to Component Unit	Payments From Component Unit	Payments to Primary Government
Primary Government - General Fund	\$ -	\$ 61,693,409	\$ 4,563	\$ -
Primary Government - Economic Development		708,739		
Primary Government - Capital Projects Fund		1,391,210		
Primary Government - Coliseum				
Primary Government - Solid Waste				
Primary Government - Central Garage				
Primary Government - Information Technology				
Component Unit - School Board Operating Fund	59,928,550			
Component Unit - IDA	2,983,227			4,563
Component Unit - FADA	500,000			
Component Unit - Coliseum Central BID	381,581			
Total	<u>\$ 63,793,358</u>	<u>\$ 63,793,358</u>	<u>\$ 4,563</u>	<u>\$ 4,563</u>

4. DEPOSITS AND INVESTMENTS:

For purposes of reporting cash flows, cash and cash equivalents include demand deposits, certificates of deposit, money market funds and repurchase agreements.

Deposits

On June 30, 2006, the carrying value of the City's deposits was \$15,958,096 and the bank balance was \$20,652,259. All of the bank balances are covered by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amount insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Investments

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of states and local governments, obligations of international development banks, "prime quality" commercial paper and certain corporate notes, repurchase agreements, certificates of deposit in United States banks, State Treasurer's Local Government Investment Pool (LGIP), and the State Non-Arbitrage Program (SNAP).

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

4. DEPOSITS AND INVESTMENTS, Continued:

Investments for the City are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Investment Policy

The City's investment policy requires that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia, including the Investment Code of Virginia and the guidelines established by the State Treasury Board and the Governmental Accounting Standards Board. State statutes limit investment in commercial paper to no more than 35% of the total portfolio, with not more than 5% per issuer. The policy imposes additional restrictions to minimize investment risk.

Credit Risk

A portion of the City's investment portfolio is professionally managed by Evergreen Investments, which strictly follows the investment policy. The policy requires all bonds or notes of the Commonwealth of Virginia, states, or political subdivisions of any state of the U.S., or asset-backed securities have at least AAA by two rating agencies, one of which must be Moody's Investor Services (Moody's) or Standard & Poor's (S&P). Repurchase agreements must be collateralized by Treasury or Agency obligations the market value of which is at least 102% of the purchase price of the security. Certificates of deposit of domestic banks must have at least A-1 rating by S & P and P-1 by Moody's for maturities less than 1 year, and AA by S & P and Aa by Moody's for maturities over one year and not exceeding 3 years. Commercial paper must be rated "prime Quality" with at least a P-1 rating by Moody's, A-a rating by S & P, and Duff and Phelps within its rating of D-1. Corporate notes and bonds must have a rating of at least A by S & P, and A by Moody's. The city also invested funds during the year with the State Treasurer's Local Government Investment pool, a 2a7 like pool, and the Virginia State Non-Arbitrage Program (VaSNAP), both rated AAAM by Standard & Poor's.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

4. DEPOSITS AND INVESTMENTS, Continued:

Primary Government	Fair Value	Investment Maturities (in years)		
		Less than 1 year	1-5 years	Long Term
Repurchase Agreements	\$ 29,725,212	\$ 29,725,212	\$ -	\$ -
Commercial paper	23,926,810	23,926,810		
Bankers Acceptance	612,624	612,624		
U.S. Government securities	49,701,921	49,701,921		
U.S. Government securities-HRHA	10,405,510	10,405,510		
State Local Government Investment Pool-City	30,000,000	30,000,000		
State Non-Arbitrage Fund-City	52,420,337	52,420,337		
Mutual and Money Market Funds	17,596,710	17,596,710		
Total Investments Controlled by City	\$ 214,389,124	\$ 214,389,124	\$ -	\$ -
Pension Plan Investments	\$ 165,080,981	\$ -	\$ 165,080,981	\$ -
Total	\$ 379,470,105	\$ 214,389,124	\$ 165,080,981	\$ -
Reconciliation to Total Cash and Investments:				
Add:				
Cash on Hand and in Banks-City	\$ 8,195,558			
Cash on Hand and in Banks-HRHA	5,773,201			
Cash With Fiscal Agent	1,753,571			
Total Deposits and Investments Primary Government and Fiduciary Funds Per Exhibits A-1 and A-9	\$ 395,192,435			

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

4. DEPOSITS AND INVESTMENTS, Continued:

Reconciliation of total deposits and investments to the government-wide statements at June 30, 2006:

Primary Government	Governmental Activities	Business Type Activities	Fiduciary Responsibilities	Total
Cash Deposits-City	\$ 1,422,112	\$ 5,504,937	\$ 1,268,509	\$ 8,195,558
Cash Deposits-HRHA		5,773,201		5,773,201
Cash With Fiscal Agent-City	298,922	1,454,649		1,753,571
Mutual and Money Market Funds	15,684,251	1,912,459		17,596,710
Investments-City	150,665,860	31,662,044	169,139,981	351,467,885
Investments-HRHA		10,405,510		10,405,510
Total Primary Government	<u>\$ 168,071,145</u>	<u>\$ 56,712,800</u>	<u>\$ 170,408,490</u>	<u>\$ 395,192,435</u>

Component Units School Board

Cash Deposits	\$ 79,656	\$ -	\$ -	\$ 79,656
Investments	2,612,664			2,612,664
Total Component Units School Board	<u>\$ 2,692,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,692,320</u>

Other Component Units

Cash Deposits	\$ 1,909,681	\$ -	\$ -	\$ 1,909,681
Cash With Fiscal Agent	2,278,472			2,278,472
Investments	2,624,362			2,624,362
Total Other Component Units	<u>\$ 6,812,515</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,812,515</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

5. ACCOUNTS RECEIVABLE:

Accounts receivable at June 30, 2006 in the Governmental Funds are as follows:

Primary Government:	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>Debt Service</u>	<u>Capital Projects</u>
General property taxes (net of allowance for uncollectible taxes of \$1,868,793)	\$ 5,766,044	\$	\$	\$	\$
Due from Commonwealth of Virginia	9,980,653	1,749,281			1,500,000
Due from federal government		973,924			
Other	5,289,705	2,201,299	-	1,371	29,742
	<u>5,289,705</u>	<u>2,201,299</u>	<u>-</u>	<u>1,371</u>	<u>29,742</u>
Total Primary Government	<u>\$ 21,036,402</u>	<u>\$ 4,924,504</u>	<u>\$ -</u>	<u>\$ 1,371</u>	<u>\$ 1,529,742</u>

Discretely Presented Component Unit -

School Board:

Due from federal government	\$ 2,513,456
Due from other municipalities	1,959,744
Other	<u>374,526</u>
Total Component Unit	<u>\$ 4,847,726</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

6. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006 are as follows:

	Beginning Balance (as restated)	Additions	Reductions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land - City	\$ 446,274,921	\$ 12,000,177	\$ (1,504,164)	\$ 456,770,934
Construction in progress	22,134,850	5,805,603	(16,004,223)	11,936,230
Total capital assets not being depreciated	468,409,771	17,805,780	(17,508,387)	468,707,164
Capital assets being depreciated:				
Buildings	72,112,250	2,754,997	(1,826,039)	73,041,208
Improvements	52,568,179	14,071,450	(9,995)	66,629,634
Machinery & Equipment	58,192,486	7,345,678	(2,146,795)	63,391,369
Infrastructure	80,840,479	8,609,002	(2,258,613)	87,190,868
Total capital assets being depreciated	263,713,394	32,781,127	(6,241,442)	290,253,079
Less accumulated depreciation for:				
Buildings	(26,931,824)	(1,725,853)	282,937	(28,374,740)
Improvements	(31,048,961)	(2,729,546)	9,995	(33,768,512)
Machinery & Equipment	(37,662,316)	(2,864,533)	1,529,952	(38,996,897)
Infrastructure	(488,316)	(3,600,688)	79,482	(4,009,522)
Total accumulated depreciation	(96,131,417)	(10,920,620)	1,902,366	(105,149,672)
Total capital assets being depreciated, net	167,581,977	21,860,507	(4,339,076)	185,103,408
Governmental activities capital assets, net	\$ 635,991,748	\$ 39,666,287	\$ (21,847,463)	\$ 653,810,572

Primary Government:

Net capital assets for Governmental Activities are composed of the following:

General capital assets	\$ 633,989,484
Internal Service Funds	19,821,088
	<u>\$ 653,810,572</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

6. CAPITAL ASSETS, Continued:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 28,205,785	\$ 675,219	\$ (14,378)	\$ 28,866,626
Construction in progress	1,722,011	4,236,128	(1,668,427)	4,289,712
Total capital assets not being depreciated	29,927,796	4,911,347	(1,682,805)	33,156,338
Capital assets being depreciated:				
Buildings	162,957,580	1,312,114	(86,156)	164,183,538
Improvements	4,594,663	717,706	-	5,312,369
Machinery & Equipment	21,052,211	1,292,154	(16,538)	22,327,827
Exhibits	10,808,493	34,232	-	10,842,725
Infrastructure	55,048,946	2,262,810	(750,440)	56,561,316
Total capital assets being depreciated	254,461,893	5,619,015	(853,134)	259,227,775
Less accumulated depreciation for:				
Buildings	(35,337,682)	(4,559,432)	-	(39,897,114)
Improvements	(3,752,021)	(384,843)	-	(4,136,864)
Machinery & Equipment	(17,385,451)	(1,797,005)	-	(19,182,456)
Exhibits	(6,873,741)	(686,675)	-	(7,560,416)
Infrastructure	(19,214,060)	(839,298)	300,253	(19,753,105)
Total accumulated depreciation	(82,562,955)	(8,267,253)	300,253	(90,529,955)
Total capital assets being depreciated, net	171,898,938	(2,648,237)	(552,881)	168,697,820
Business-type activities capital assets, net	<u>\$ 201,826,734</u>	<u>\$ 2,263,110</u>	<u>\$ (2,235,686)</u>	<u>\$ 201,854,157</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

6. CAPITAL ASSETS, Continued:

Depreciation expense was charged to functions/programs of the primary government as follows:

	General Capital Assets	Internal Service Funds	Total
Governmental activities:			
General government	\$5,764,167	\$2,663,542	\$ 8,427,709
Health	29,706		29,706
Public welfare	65,684		65,684
Public safety	839,962		839,962
Streets and highways	220,881		220,881
Culture and recreation	13,920		13,920
Education	1,322,758		1,322,758
Total depreciation expense - governmental activities	<u>\$8,257,078</u>	<u>\$2,663,542</u>	<u>\$ 10,920,620</u>
Business - type activities:			
Culture and recreation	\$5,267,265		
Sanitation	2,004,536		
Housing	995,452		
Total depreciation expense - business-type activities	<u>\$8,267,253</u> *		

* Depreciation expense in the amount of \$53,209 was capitalized as part of self-constructed assets in the Wastewater Management Fund.

Capital outlays are reported as expenditures in the governmental funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The adjustment from governmental funds to the government-wide statements is summarized as follows:

Capital Outlay	\$ 31,311,695
Depreciation expense	(8,257,078)
Capital outlay not capitalized	<u>(11,827,287)</u>
Total adjustment	<u>\$ 11,227,330</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

6. CAPITAL ASSETS, Continued:

Discretely Presented Component Units

School Board:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 5,058,366	\$ -	\$ -	\$ 5,058,366
Total capital assets not being depreciated	<u>5,058,366</u>	<u>-</u>	<u>-</u>	<u>5,058,366</u>
Capital assets being depreciated:				
Buildings	49,507,691			49,507,691
Improvements	310,100			310,100
Machinery & Equipment	<u>30,791,050</u>	<u>2,179,743</u>	<u>(2,205,948)</u>	<u>30,764,845</u>
Total capital assets being depreciated	<u>80,608,841</u>	<u>2,179,743</u>	<u>(2,205,948)</u>	<u>80,582,636</u>
Less accumulated depreciation for:				
Buildings	(44,461,039)	(733,457)		(45,194,496)
Improvements	(58,144)	(15,505)		(73,649)
Machinery & Equipment	<u>(21,723,758)</u>	<u>(2,736,770)</u>	<u>2,170,625</u>	<u>(22,289,903)</u>
Total accumulated depreciation	<u>(66,242,941)</u>	<u>(3,485,732)</u>	<u>2,170,625</u>	<u>(67,558,048)</u>
Total capital assets being depreciated, net	<u>14,365,900</u>	<u>(1,305,989)</u>	<u>(35,323)</u>	<u>13,024,588</u>
School Board capital assets, net	<u>\$ 19,424,266</u>	<u>\$ (1,305,989)</u>	<u>\$ (35,323)</u>	<u>\$ 18,082,954</u>

Capital outlays are reported as expenditures in the governmental funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The adjustment from governmental funds to the government-wide statements is summarized as follows:

Capital outlay	\$ 2,179,743
Depreciation expense	<u>(3,485,732)</u>
Total adjustment	<u>\$ (1,305,989)</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

6. CAPITAL ASSETS, Continued:

Industrial Development Authority:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 18,024,668	\$ -	\$(2,221,899)	\$ 15,802,769
Construction in progress	3,139,287	1,361,469		4,500,756
Total capital assets not being depreciated	<u>21,163,955</u>	<u>1,361,469</u>	<u>(2,221,899)</u>	<u>20,303,525</u>
Capital assets being depreciated:				
Improvements	383,042			383,042
Infrastructure	1,773,444	771,855		2,545,299
Machinery & Equipment	50,080			50,080
Total capital assets being depreciated	<u>2,206,566</u>	<u>771,855</u>	<u>-</u>	<u>2,978,421</u>
Less accumulated depreciation for:				
Improvements	(383,042)			(383,042)
Infrastructure	(150,552)	(109,080)		(259,632)
Machinery & Equipment	(36,307)	(874)		(37,181)
Total accumulated depreciation	<u>(569,901)</u>	<u>(109,954)</u>	<u>-</u>	<u>(679,855)</u>
Total capital assets being depreciated, net	<u>1,636,665</u>	<u>661,901</u>	<u>-</u>	<u>2,298,566</u>
Industrial Development Authority capital assets, net	<u>\$ 22,800,620</u>	<u>\$ 2,023,370</u>	<u>\$(2,221,899)</u>	<u>\$ 22,602,091</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

6. CAPITAL ASSETS, Continued:

Healthy Families Partnership, Inc.:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Machinery & Equipment	\$ 11,663	\$ -	\$ -	\$ 11,663
Less accumulated depreciation for:				
Machinery & Equipment	(3,888)	(3,888)	-	(7,776)
Healthy Families Partnership capital assets, net	<u>\$ 7,775</u>	<u>\$ (3,888)</u>	<u>\$ -</u>	<u>\$ 3,887</u>

Downtown Hampton Development Partnership, Inc.:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Improvements	\$ 411,776	\$ 15,166	\$ -	\$ 426,942
Machinery & Equipment	72,164	10,189	(982)	81,371
Total capital assets being depreciated	483,940	25,355	(982)	508,313
Less accumulated depreciation	(96,352)	(17,731)	-	(114,083)
Downtown Hampton Development Partnership capital assets, net	<u>\$ 387,588</u>	<u>\$ 7,624</u>	<u>\$ (982)</u>	<u>\$ 394,230</u>

Coliseum Central Business Improvement District, Inc.:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Machinery & Equipment	\$ 78,673	\$ 3,934	\$ -	\$ 82,607
Less accumulated depreciation for:				
Machinery & Equipment	(61,678)	(8,251)	-	(69,929)
Coliseum Central Business Improvement District capital assets, net	<u>\$ 16,995</u>	<u>\$ (4,317)</u>	<u>\$ -</u>	<u>\$ 12,678</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

6. CAPITAL ASSETS, Continued:

Construction in Progress

Several capital projects were in various stages of completion on June 30, 2006. In accordance with the City's accounting policies and practices, these projects will remain in construction in progress until completion, at which time they will be transferred into the various capital asset accounts in the government-wide statements, Enterprise and Internal Service Funds. At June 30, 2006, construction in progress by project was comprised as follows:

	<u>Project Authorization</u>	<u>Expended to June 30, 2006</u>
<u>General Capital Assets</u>		
Infrastructure	\$ 1,222,119	\$ 1,222,118
School Roof and Window Replacements	8,444,787	4,640,287
Refuse-Steam Plant Upgrade	6,110,800	6,073,825
	<u>\$ 15,777,706</u>	<u>\$ 11,936,230</u>
 <u>Enterprise Funds</u>		
Museum Exhibits	\$ 1,047,035	\$ 1,047,035
Wastewater Management Sewer Projects	922,950	622,146
HRHA - New homes and rehab	2,021,873	2,021,873
Coliseum - Renovations and upgrades	1,161,454	598,659
	<u>\$ 5,153,312</u>	<u>\$ 4,289,713</u>
 <u>Discretely Presented Component Unit - IDA</u>		
Hampton Roads Center north Infrastructure	<u>\$ 5,600,000</u>	<u>\$ 4,500,756</u>

7. BUDGETARY - GAAP REPORTING RECONCILIATION:

The City adopts an annual budget for the General Fund, but does not adopt an annual budget for any of the Special Revenue Funds. Resources are provided for and appropriated individually throughout the year as they become available to the City. The General Fund budget basis and GAAP are substantially the same.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT:

The following is a summary of the changes in general obligation debt and other indebtedness during the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable:					
Serial bonds	\$ 201,505,000	\$ -	\$(10,715,000)	\$ 190,790,000	\$ 23,185,000
Unamortized premium	3,610,481		(235,283)	3,375,198	235,283
Less deferred amount of advance refunding	(3,526,072)		176,304	(3,349,768)	(176,304)
Bonds payable (VRS)	7,985,000		(730,000)	7,255,000	765,000
Capital leases	2,531,474		(1,923,975)	607,499	365,581
Capital leases - Internal Service Funds	1,300,000		(612,416)	687,584	60,385
Long-term notes payable	1,496,925	350,550	(655,951)	1,191,524	305,401
General Obligation Bond Anticipation Notes					
Literary loans payable	1,328,427		(188,050)	1,140,377	188,050
Compensated absences	5,478,616	4,206,052	(3,402,860)	6,281,808	3,445,499
Claims and judgments	2,291,298	1,720,883	(780,210)	3,231,971	2,181,860
Net pension obligation	4		(1)	3	-
	<u>4</u>	<u>350,550</u>	<u>(655,951)</u>	<u>1,191,524</u>	<u>305,401</u>
Governmental activities long-term liabilities	<u>\$ 224,001,153</u>	<u>\$ 6,277,485</u>	<u>\$(19,067,442)</u>	<u>\$ 211,211,196</u>	<u>\$ 30,555,755</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due.

Balances at June 30, 2006:

Long-term liabilities (detail above)	\$ 211,211,196
Less debt - Internal Service Fund	<u>(3,792,681)</u>
Combined adjustment	<u>\$ 207,418,515</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 120,060,000	\$ -	\$ (1,345,000)	\$ 118,715,000	\$ 1,415,000
Unamortized premium	3,063,619	-	(208,899)	2,854,720	208,901
Less deferred amount for advance refunding	(1,568,775)	-	188,792	(1,379,983)	
Total bonds payable	121,554,844	-	(1,365,107)	120,189,737	1,623,901
Capital leases	1,497,305		(118,732)	1,378,573	129,014
Long-term notes payable:					
City	93,000	-	(93,000)	-	-
HRHA	1,061,892	-	(90,398)	971,494	96,290
Compensated absences	998,055	609,871	542,333	1,065,593	361,833
Business-type activities long-term liabilities	<u>\$ 125,205,096</u>	<u>\$ 609,871</u>	<u>\$ (1,124,904)</u>	<u>\$ 123,605,397</u>	<u>\$ 2,211,038</u>
Component Units:					
School Board:					
Compensated absences	\$ 7,213,927	\$ 3,680,455	\$ (2,061,492)	\$ 8,832,890	\$ 1,320,322
Capital leases	415,581	-	(415,581)	-	-
Total School Board	<u>\$ 7,629,508</u>	<u>\$ 3,680,455</u>	<u>\$ (2,477,073)</u>	<u>\$ 8,832,890</u>	<u>\$ 1,320,322</u>
Industrial Development Authority:					
Revenue bonds payable	<u>\$ 11,398,341</u>	<u>\$ -</u>	<u>\$ (431,874)</u>	<u>\$ 10,966,467</u>	<u>\$ 461,015</u>
Downtown Hampton Development Partnership, Inc.:					
Notes payable	<u>\$ 240,000</u>	<u>\$ -</u>	<u>\$ (60,000)</u>	<u>\$ 180,000</u>	<u>\$ 60,000</u>
Foundation of the Virginia Air and Space Center and Hampton Roads History Center:					
Notes payable	<u>\$ 2,100,000</u>	<u>\$ 91,482</u>	<u>\$ (340,000)</u>	<u>\$ 1,851,482</u>	<u>\$ 1,851,482</u>

Enterprise Funds

On August 31, 1999, the City issued \$3,195,000 in The Hamptons Golf Course Refunding Revenue Bonds, Series 1999 with an interest rate of 6% to advance refund \$3,105,000 of outstanding Revenue Bonds with interest rates of 6.5% and 7.625%. At June 30, 2006, \$1,830,000 in The Hamptons Golf Course Refunding Revenue Bonds remains outstanding.

The unamortized amount deferred on the refunding of \$38,026 is reported in the accompanying financial statements as a reduction of bonds payable and is being charged to operations through

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

the year 2013, using the interest method.

The Hamptons Golf Course Refunding Revenue Bonds are subject to redemption by December 1 of each year, from amounts to be deposited in the Bond Retirement Account pursuant to the Indenture of Trust.

In January 1994, the City of Hampton Museum Revenue Bonds dated January 1, 1994 (Series 1994) were issued and recorded in the Museum Enterprise Fund.

On February 19, 2004, the City issued \$12,875,000 in Museum Revenue Refunding Bonds (Bonds) with interest ranging from 2% to 5%. The proceeds of the 2004 Bonds, together with certain funds held under the Indenture and interest earned thereon, are to be used to pay for the defeasance and prepayment of \$13,275,000 of the City's Museum Revenue Refunding Bonds, Series 1994, originally dated January 1, 1994 and maturing January 1, 2009 and January 1, 2014 (the "Refunded Bonds"). The Refunded Bonds were redeemed on April 6, 2004, from the net proceeds of the 2004 Bonds and funds held for the benefit of the Refunded Bonds, all deposited and maintained in an irrevocable fund (the "Refunding Trust Fund") maintained by the Trustee pursuant to a Refunding Trust Agreement between the City and the Trustee (the "Refunding Trust Agreement"). The Bonds are payable solely from and collateralized by, revenues derived from ownership and operation of the project and nonrequired appropriations by the City pursuant to its moral obligation pledge. Interest on the Bonds is due and payable semi-annually on each January 1 and July 1.

Details at June 30, 2006 are as follows:

Series 2004

Outstanding debt	\$ 10,580,000
Interest rate	2% to 5%
Years of maturity	2006 - 2014

The Museum Revenue Bonds Indenture of Trust requires that all funds from operation be accounted for in a revenue fund and applied, to the extent monies are available, to funds and accounts created by the indenture.

Convention Center Revenue Bonds (Bonds) were issued pursuant to an Indenture of Trust, dated November 1, 2002, between the City of Hampton and Wachovia Bank, National Association, as trustee. Bonds in the amount of \$106,305,000 were issued with interest ranging from 3.50% to 5.25%. Interest on the Bonds is due and payable semi-annually on each January 15 and July 15. The proceeds of the Bonds were used to finance the cost of the construction of a convention center and to retire a \$7,585,000 Revenue Bond Anticipation Note issued in connection with the project and to pay interest on the Series 2002 Bonds. The bonds are payable solely from and

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

collateralized by, revenues derived by the City from ownership and operation of the project.

The Convention Center Revenue Bonds Indenture of Trust requires that all funds from operations be accounted for in a revenue fund and applied, to the extent monies are available, to funds and accounts created by the indenture.

Revenue bond debt service requirements to maturity are as follows:

<u>Fiscal year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,415,000	\$ 5,866,769
2008	1,450,000	5,828,968
2009	1,490,000	5,785,531
2010	1,550,000	5,720,631
2011	3,755,000	5,662,807
2012-2016	17,180,000	25,777,919
2017-2021	16,920,000	21,804,394
2022-2026	21,550,000	16,795,487
2027-2031	26,755,000	10,826,494
2032-2035	26,650,000	3,412,500
Total	<u>118,715,000</u>	<u>107,481,500</u>

The City has entered into several lease purchase agreements with its Enterprise Funds. The following is a summary of those agreements:

<u>Description</u>	<u>The Hamptons</u>	<u>The Woodlands</u>	<u>Total</u>
Capital lease for Toro riding mowers at Woodlands Golf Course dated February 2003 payable in 31 equal monthly payments of \$2,841	\$	\$ 53,979	\$ 53,979
Capital lease for Woodlands Golf Course Clubhouse Facility dated July 1990 with interest at 9.875%, payable in 120 equal monthly payments of \$18,581 remaining	<u>2,006,748</u>	<u></u>	<u>2,006,748</u>
Totals (including interest)	2,006,748	53,979	2,060,727
Less: Interest	<u>(680,585)</u>	<u>(1,567)</u>	<u>(682,152)</u>
Totals (excluding interest)	<u>\$ 1,326,163</u>	<u>\$ 52,412</u>	<u>\$ 1,378,575</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

Debt service on capital leases payable during future fiscal years ending June 30 is as follows:

<u>Year</u>	<u>Lease Payable</u>
2007	\$ 257,064
2008	242,859
2009	222,972
2010	222,972
2011	222,972
2012 – 2015	<u>891,888</u>
Total	2,060,727
Less interest	<u>(682,152)</u>
	<u>\$ 1,378,575</u>

Discretely Presented Component Unit - IDA:

On April 11, 1997, the Industrial Development Authority issued \$1,745,000 of Industrial Development Revenue Bonds. The proceeds from the bond issue were used to acquire and improve land and a building for lease to Whitney Rand Manufacturing Corporation. The bonds are payable from revenues generated from the lease of the land and building with the lease term being equivalent to the life of the bond issue. Principal and interest are due monthly.

On September 7, 2001, The Industrial Development Authority issued Lease Revenue Bonds in the amount of \$11,286,888. The proceeds from the bond issue were used to finance the construction of the Peninsula Workforce Development Center. The bonds are payable from revenues generated from the lease of the building with the lease term being equivalent to the life of the bond issue. On each January 1 and July 1 beginning January 1, 2002, to and including January 1, 2021, the IDA shall pay semi-annual installments of principal and interest in the amount of \$495,030.

Details at June 30, 2006 are as follows:

	<u>1997 Revenue Bonds</u>		<u>2002 Revenue Bonds</u>
	<u>Taxable</u>	<u>Tax-Exempt</u>	<u>Tax-Exempt</u>
Outstanding Debt	\$ 207,728	\$ 1,096,354	\$ 9,662,385
Interest	8%	8%	6.17%
Years of Maturity	2006 – 2018	2006 – 2018	2006 – 2022

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

Debt service on the foregoing debt during future years is as follows:

<u>Year</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 461,016	\$ 701,349
2008	491,117	671,248
2009	523,762	638,602
2010	558,325	604,040
2011	595,200	567,164
2012 – 2016	3,621,381	2,190,443
2017 – 2021	4,363,124	893,785
2022	<u>352,542</u>	<u>14,815</u>
	<u>\$ 10,966,467</u>	<u>\$ 6,281,446</u>

Discretely Presented Component Unit-Downtown Hampton:

As of June 30, 2006, the Downtown Hampton Development Partnership, Inc. is indebted to Old Point National Bank for an unsecured note payable in the amount of \$180,000. Funds are disbursed annually in principal installments of \$60,000, plus interest payable monthly at 4%. The final payment is due in May 2009.

Discretely Presented Component Unit-Foundation:

As of June 30, 2006, the Foundation has \$1,851,482 outstanding on two lines of credit with SunTrust Bank. Both lines of credit are collateralized by existing and future receivables, inventories, equipment and other assets of the Foundation.

Blended Component Unit – HRHA:

As explained in Note 1, under the section regarding the reporting entity, the Hampton Redevelopment and Housing Authority (HRHA) is included in the financial statements as a blended component unit. The following is a description HRHA debt that has been blended into the primary government (City):

Virginia Housing and Development Authority Mortgage Notes:

As of December 31, 2005, HRHA was indebted to the Virginia Housing Development Authority for a mortgage note of \$184,275. The note is payable in monthly installments of \$1,918. The monthly installments due within the next twelve months are \$23,016. The interest rate on the note is 7.8637% and the payments are for 476 months beginning on January 1, 1979. Maturities for future years are as follows:

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

<u>Year</u>	<u>Principal</u>
2006	\$ 8,844
2007	9,565
2008	10,345
2009	11,188
2010	12,100
2011 – 2015	77,013
2016 – 2020	<u>55,220</u>
	<u>\$ 184,275</u>

As of December 31, 2005, HRHA was indebted to the Virginia Housing Development Authority for a mortgage note of \$85,839. The note is payable in monthly installments of \$2,220. The interest rate on the note is at 2% and is for 180 months beginning May 1, 1994. Maturities for future years are as follows:

<u>Year</u>	<u>Principal</u>
2006	\$ 25,154
2007	25,662
2008	26,180
2009	<u>8,843</u>
	<u>\$ 85,839</u>

As of December 31, 2005, HRHA was indebted to City of Hampton for property under a 15 year lease in the amount of \$62,697. The interest rate is 6.5% and the lease is payable in 180 monthly installments of \$903 beginning May 15, 1997. Maturities for future years are as follows:

<u>Year</u>	<u>Principal</u>
2006	\$ 6,975
2007	7,442
2008	7,940
2009	8,472
2010	9,039
2011 – 2015	<u>22,829</u>
	<u>\$ 62,697</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

Other Notes:

As of December 31, 2005, HRHA was indebted to SunTrust Bank for mortgage financing secured on commercial space in the amount of \$638,683. The interest rate is 4.42% and the note is payable in 120 monthly installments of \$6,869. Maturities for future years are as follows:

<u>Year</u>	<u>Principal</u>
2006	\$ 55,317
2007	57,812
2008	60,419
2009	63,145
2010	65,993
2011 – 2015	335,997
	<u>\$ 638,683</u>

Internal Service Funds:

The note payable of \$6,260,641 in the Refuse-Steam Plant represents an amount payable to the Debt Service Fund. The Refuse-Steam Plant was advanced \$6,260,641 from the April 2002 and April 2005 General Obligation Bond Issues to make certain required capital improvements to its facilities. The note is to be repaid in semi-annual installments on January 15th and July 15th, which includes interest. These installments will be used to meet a pro-rata share of the annual debt service costs on the General Obligation Series 2002 and 2005 Bonds. This note payable was excluded from governmental activities' long-term liabilities since it was eliminated against the related notes receivable in the statement of net assets for governmental activities.

The City is self-insured for workmen's compensation benefits and general liability insurance claims. At June 30, 2006, the liability for existing claims amounted to \$3,231,971. Workmen's compensation benefit claims are payable weekly or monthly through 2016.

The long-term debt in the Equipment Replacement Fund represents obligations under capital leases. During fiscal year 2005, the City entered into a master lease purchase agreement with Bank of America Leasing and Capital, LLC to purchase \$1,300,000 in rolling-stock equipment. On May 31, 2006, this master lease purchase obligation was reduced by \$504,332. The lease is to be repaid in equal quarterly installments of \$22,978 at an interest rate of 3.751%.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

Year	Accrued Insurance Claims	Year	Capital Lease
2007	\$ 2,181,860	2007	\$ 91,912
2008	174,873	2008	91,912
2009	163,004	2009	91,912
2010	150,044	2010	91,912
2011	133,814	2011	91,912
2012-2016	428,376	2012-2015	367,648
	<u>\$ 3,231,971</u>		<u>827,208</u>
		Less interest	<u>(139,624)</u>
			<u><u>\$ 687,584</u></u>

General Long-Term Debt:

Details of general obligation bonds and loans reported in the government-wide statements at June 30, 2006 are as follows:

General Obligation Bonds Outstanding	\$190,790,000
Coupon interest rate	2.0% to 7.00%
Years of maturity	2006 – 2026

Debt service on the foregoing debt is payable during future fiscal years ending June 30 is as follows:

General Obligation Bonds		
Year	Principal	Interest
2007	\$ 23,185,000	\$ 8,913,002
2008	11,360,000	7,786,027
2009	12,070,000	7,266,601
2010	12,405,000	6,723,537
2011	10,310,000	6,199,166
2012-2016	54,490,000	23,514,186
2017-2021	42,690,000	11,641,662
2022-2026	24,280,000	3,277,394
	<u>\$ 190,790,000</u>	<u>\$ 75,321,575</u>

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

On January 30, 2003, the City issued \$18,340,000 in Public Improvement Refunding Bonds (Bonds) with interest ranging from 2.00% to 4.25%. The proceeds of the bonds were used to defease \$18,400,000 of the City's Public Improvement Bonds, Series A and Public Improvement Refunding Bonds, Series C, originally dated November 1, 1993 and maturing August 1, 2005 through August 1, 2013. The Refunded Bonds were redeemed on August 1, 2003. The Bonds are general obligations of the City and the full faith and credit of the City are pledged to the payment of principal and interest. Interest on the Bonds is due and payable semi-annually on each February 1 and August 1.

On October 15, 2002, the City issued \$7,370,000 in Public Improvement Bonds (Bonds) with interest ranging from 2.75% to 5.00%. The proceeds of the Bonds are to be used as part of the City's participation in the revitalization and commercial development of the Coliseum District in the City and to assist in the development of a Bass Pro Outdoors Shop in such District. The bonds are general obligations of the City and the full faith and credit of the City are pledged to the payment of principal and interest. Interest on the Bonds is due and payable semi-annually on each January 15 and July 15.

On January 15, 2000, the City issued \$45,960,000 in Public Improvement Bonds (Bonds) with interest ranging from 4.75% to 6.00% and \$3,425,000 in General Obligation Notes (Notes) with an interest rate of 4.65%. Interest on the Bonds is due and payable semi-annually on each February 1 and August 1. The Notes were paid on May 30, 2002. On April 1, 2002, the City issued \$30,155,000 in Public Improvement Bonds (Bonds) with interest ranging from 4.25% to 5.00%. The proceeds of the Bonds were used to pay \$3,425,000 in certain General Obligation Notes of the City and the remaining balance will to be used to finance general public improvements in the City, including street, road and sewer projects, community enhancement projects, school projects and other projects for the benefit of the City. The Bonds are general obligations of the City and the full faith and credit of the City are pledged to the payment of principal and interest. Interest on the Bonds is due and payable semi-annually on each April 1 and October 1.

In prior years, the City defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the City's financial statements. On June 30, 2006, \$84,235,000 of bonds outstanding are considered defeased. General obligation bonds are backed by the full faith and credit of the City.

The City was required to make sinking fund deposits through August, 1986 to provide for the retirement of \$10,700,000 of 1978 refunding bonds maturing in 2007. Deposits totaling \$10,637,250 have been made to date and are reflected in the Debt Service Fund. The sinking fund deposits have been used to purchase \$9,306,000 par value U.S. Treasury Bonds bearing interest at 9.375% due in 2006. The City has entered into an escrow agreement with a bank to

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

receive interest payments from the United States Treasury Bonds and apply those payments to the annual debt service of the \$10,700,000 refunding bonds until the maturity in 2007.

On November 13, 1996, the City increased the line-of-credit with a bank from \$3,000,000 to \$8,000,000 for the acquisition of real property which is strategic to the City's future planning and/or economic development. On February 13, 1997, the City borrowed \$761,760 and \$520,000 under the line-of-credit for the acquisition of real property at Aberdeen Road and Mercedes Drive, respectively. Those notes are payable in annual principal installments of \$76,176 and \$52,000, respectively, through February 13, 2007, plus interest accrued weekly at 95% of the LIBOR rate. On November 26, 2001, the City borrowed \$1,772,248 under the line-of-credit for the acquisition of real property associated with the road right of way on the Power Plant Retail Project site. This note is payable in annual installments of \$177,225 through November 26, 2010 and one annual installment of \$177,223 due November 26, 2011, plus interest accrued weekly at 95% of the LIBOR rate. The notes are secured by the full faith and credit of the City. At June 30, 2006, the outstanding balance was \$1,191,524.

On May 16, 2006 and May 18, 2006, the City issued notes payable in the amounts of \$82,550 and \$268,000 for the acquisition of real property at Seaboard Avenue and 2nd Street, respectively. This transaction is an in-substance defeasance of debt and accordingly, funds have been placed in irrevocable escrow at Old Point National Bank to be used solely for the purpose of making principal and interest payments on the old debt. The assets are invested in US Securities and the timing of the collections coincides with the timing of the scheduled interest and principle payments. The escrow account and notes payable in the amount of \$350,550 have been removed from the City's books as of June 30, 2006.

The City is indebted for \$607,499 under capital leases and installment purchase contracts for the acquisition of equipment. The remaining debt service requirements, including interest, on the aforementioned contracts payable during future years ending June 30 are as follows:

<u>Year</u>	
2007	\$ 385,906
2008	<u>247,498</u>
	633,404
Less interest	<u>(25,905)</u>
	<u>\$ 607,499</u>

Debt Limit:

The Commonwealth of Virginia imposes a legal limit of 10% of assessed valuation on the amount of general obligation borrowings, which may be issued by the City. As of June 30, 2006, the City's aggregate general obligation indebtedness was \$200,376,901 which is less than the State limit.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

On August 20, 2004, the City issued \$29,630,000 in Public Improvement Refunding Bonds, Series 2004 (Bonds) with interest ranging from 2.00% to 5.00%. The proceeds of the Bonds were used to defease \$26,710,000 of the City's Public Improvement Bonds, Series 2000 originally dated January 15, 2000 and maturing February 1, 2012 through February 1, 2020 (Refunded Bonds). The Refunded Bonds will be redeemed on February 1, 2010. Interest on the Bonds is due and payable semi-annually on February 1 and August 1.

The net proceeds from the refunding bonds of \$30,236,072 (net of underwriter's discount and issuance costs of \$267,178) were deposited with Wachovia Bank, National Association, Richmond, Virginia (Trustee), under a refunding trust agreement dated as of September 30, 2004. The Trustee used such proceeds to purchase direct, non-callable obligations of the U.S. Treasury including state and local government series (collectively, government obligations). The government obligations will mature and bear interest at times and in amounts sufficient to pay debt service requirements on the refunded bonds until their redemption date. The 2000 series refunded bonds will be redeemed on February 1, 2010 at their redemption price of 102% of the principal amount plus interest.

This transaction is an in-substance a defeasance of debt and, accordingly, the refunded bonds (of which \$26,710,000 remain outstanding at June 30, 2006) have been removed from the financial statements and the government obligations will not be recorded in the financial statements.

As a result of the advance refunding, the City will reduce its total debt service costs by approximately \$1,403,662 for a present value savings of \$1,067,135. The present value savings represent approximately 4% of the refunded bonds. In the government-wide statements this transaction resulted in an economic loss of \$3,526,072.

On April 6, 2005, the City issued \$53,210,000 in Public Improvement Refunding Bonds and Series 2005A (Bonds) with interest ranging from 3.00% to 5.00% and \$10,000,000 in Taxable Public Improvement Refunding Bonds, and Series 2005 B (Bonds) with an interest rate of 5.04%. The proceeds of the Bonds will be used to finance capital improvements in the City, including public building, street, beach, waterway and other infrastructure improvements, dredging, improvements in the Coliseum Central and Downtown Areas, improvements to garages, public safety facilities, schools, playgrounds, the public Boat Ramp and the Virginia Air and Space Center, acquisition and improvement of a Teen Center, steam plant air pollution control facilities, property acquisition and other miscellaneous facilities in the City. Interest on the Bonds is due and payable semi-annually on each April 1 and October 1. The Bonds are general obligations of the City and the full faith and credit of the City are pledged to the payment of principal and interest.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

Taxable General Obligation Bonds:

On February 28, 2005, the City issued \$7,985,000 in Taxable General Obligation Refunding Bonds, Series 2005 (Bonds) with an interest rate of 4.75%. The proceeds of the Bonds were used to refinance Taxable General Obligation Refunding Bonds, Series 1996 with an interest rate of 6.79%. Interest on the Bonds is due and payable semi-annually on March 1 and September 1. As a result of the refinancing, the City will reduce its total debt service costs by approximately \$671,709 for a present value savings of \$1,661,854. The present value savings represent approximately 4.75% of the refunded bonds. In the government wide statements this transaction resulted in an economic gain of \$418,885.

Debt service on the foregoing debt is payable during future fiscal years ending June 30 as follows:

<u>Year</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 765,000	\$ 344,613
2008	805,000	308,275
2009	840,000	270,038
2010	880,000	230,138
2011	925,000	188,338
2012 – 2014	<u>3,040,000</u>	<u>293,312</u>
	<u>\$ 7,255,000</u>	<u>\$ 1,634,714</u>

The City's indebtedness includes \$1,140,377 in loans from the State Literary Loan Fund. The proceeds of the one loan were used to fund the City's share of the New Horizons Technical Center, a regional high school vocational and technical center. The other loans were used for major repairs or renovations to four elementary schools and Hampton High School. Repayment is in annual installments over a 20-year term at 3% interest.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

8. GENERAL OBLIGATION AND OTHER LONG-TERM DEBT, Continued:

Debt service on literary loans during future fiscal years ending June 30 is as follows:

<u>Year</u>		<u>Loan</u>
2007	\$	222,261
2008		216,620
2009		170,978
2010		166,537
2011		162,095
2012 – 2014		<u>337,394</u>
		1,275,885
Less interest		<u>(135,508)</u>
	\$	<u>1,140,377</u>

Overlapping Debt:

There are no overlapping or underlying tax jurisdictions.

9. DEFINED BENEFIT PENSION PLANS:

The City contributes to two pension plans for its employees, the Hampton Employees' Retirement System (HERS) and the Virginia Retirement System (VRS). HERS covers all full-time salaried employees who were first hired prior to July 1, 1984 and VRS covers all full-time salaried employees.

Plan Description - HERS:

HERS is a single employer public employee defined benefit pension plan established and administered by the City to augment the retirement benefits provided to full-time permanent City and School Board employees under the Virginia Retirement System (VRS). The authority to establish and amend benefit provisions of HERS is governed by statute as set out in Chapter 28 of the Code of the City of Hampton, Virginia. HERS is considered part of the City of Hampton's financial reporting entity and is included in the City's financial reports as a pension trust fund. HERS issues a publicly available financial report that includes financial statements and required supplementary information for HERS. The financial report may be obtained by writing to City of Hampton, Finance Department, 22 Lincoln Street, Hampton, Virginia, 23669 or by calling (757) 727-6230.

Funding Policy - HERS:

The contribution requirements of plan members and the City of Hampton are established and may be amended by City Council. Plan members do not contribute. The City is required to contribute an actuarially determined rate; the current rate is 4.47% of annual covered payroll.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

9. DEFINED BENEFIT PENSION PLANS, Continued:

Annual Pension Cost and Net Pension Obligation – HERS:

For fiscal year 2006, the City of Hampton's annual pension cost and net pension obligation were as follows:

Annual required contribution	\$ 667,251
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	<u>667,251</u>
Contributions made	<u>(667,251)</u>
Increase (decrease) in net pension obligation	-
Net pension obligation, July 1, 2005	-
Net pension obligation, June 30, 2006	<u>\$ -</u>

The annual required contribution was determined as a part of the July 1, 2005 actuarial valuation using the entry age normal cost method with normal cost calculated on an aggregate basis. The actuarial assumptions included (a) 8% investment rate of return and (b) projected salary increases of 5% per year. The actuarial assumptions include a future inflation rate of 4.5% a year. The plan was amended in 2000 to provide for a one-time cost of living adjustment of 3.0% to members who retired prior to July 2, 1998. Effective July 1, 2001, the Board authorized a 3.5% cost of living adjustment to members who retired prior to July 1, 1999. The actuarial value of assets was determined using market value, but with the difference between expected and actual return recognized over a five-year period. The unfunded actuarial liability is amortized on a flat dollar basis. The remaining amortization period at June 30, 2006 was 17 years. The amortization period is closed.

Summary of Significant Accounting Policies - HERS

Basis of Accounting:

The financial statements of HERS are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which the contributions are due. Benefits and refunds are recognized when due and are payable in accordance with the terms of the plan.

Method Used to Value Investments:

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. The fair value of U.S. government and corporate bonds and stocks traded on national securities exchange is determined by using the last reported sales price on the last business day of the fiscal year. Investments that do not have an established market are reported at estimated fair value.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

9. DEFINED BENEFIT PENSION PLAN PLANS, Continued:

Trend Information – HERS:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/00	\$ -	0 %	\$ -
6/30/01	-	0	-
6/30/02	-	0	-
6/30/03	-	0	-
6/30/04	-	0	-
6/30/05	720,567	100	-
6/30/06	667,251	100	-

Funding Progress – HERS:

The amount shown below as actuarial accrued liability is computed using the Entry Age Normal Cost method of funding. The nine most recent years of funding progress are as follows:

Actuarial Valuation Date	Value of Assets (a)	Entry Age Normal Cost Method (b)	AAL (Funding Excess) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
6/30/98	\$ 178,242,951	\$ 125,390,971	\$ (52,851,980)	142.2%	\$ 57,426,667	(92.0)%
6/30/99	191,666,466	150,125,671	(41,540,795)	127.7	52,595,318	(79.0)
6/30/00	202,094,503	153,529,592	(48,564,911)	131.6	45,804,859	(106.0)
6/30/01	206,871,679	158,401,549	(48,470,130)	130.6	40,393,841	(120.0)
6/30/02	195,451,957	171,660,111	(23,791,846)	113.9	43,350,578	(54.9)
6/30/03	190,428,272	176,541,411	(13,886,861)	107.9	38,281,134	(36.3)
6/30/04	177,780,361	179,043,484	1,263,123	99.3	36,703,903	3.4
6/30/05	167,354,946	177,417,632	10,062,686	94.3	31,415,019	32.0
6/30/06	162,214,805	178,547,557	16,332,752	90.9	32,316,632	50.5

Plan Description - VRS:

The City of Hampton, Component Unit - School Board, and HRHA contribute to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System).

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of credited service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employers (age 50 with 25 years for participating law enforcement officers and

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

9. DEFINED BENEFIT PENSION PLAN PLANS, Continued:

firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases, limited to 5%, beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary.

Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500.

Funding Policy - VRS:

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. The 5% member contribution has been assumed by the City of Hampton, the Component Unit - School Board, and HRHA. In addition, the City of Hampton and the Component Unit - School Board are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City of Hampton's, Component Unit - School Board's nonprofessional employees, and HRHA's contribution rates for the fiscal year ended 2006 were 17.5%, 13.75%, and 5%, respectively. The Component Unit - School Board's contributions to VRS for professional employees for the fiscal years ending June 30, 2006, 2005, and 2004 of \$12,433,219 (11.62%), \$11,223,893 (11.03%), and \$8,318,360 (8.77%), respectively, were equal to the required contributions for each year.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

9. DEFINED BENEFIT PENSION PLAN PLANS, Continued:

Annual Pension Cost and Net Pension Obligation:

For 2006, the City of Hampton's, Component Unit - School Board's nonprofessional employees, and HRHA's annual pension cost and net pension obligation were as follows:

	<u>City of Hampton</u>	<u>Component Unit- School Board</u>	<u>HRHA</u>
Annual required contribution	\$ 13,696,711	\$ 879,862	\$ 186,391
Interest on net pension obligation		-	-
Adjustment to annual required contribution	(1)	-	-
Annual pension cost	13,696,710	879,862	186,391
Contributions made	(13,696,711)	(879,862)	(186,391)
Decrease in net pension obligation	(1)	-	-
Net pension obligation, July 1, 2005	4	-	-
Net pension obligation, June 30, 2006	\$ 3	\$ -	\$ -

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions include (a) 7.5% investment rate of return, (b) projected salary increase of 3.5% to 5.73% per year, (c) cost of living adjustments for the Component Unit-School Board and HRHA of 2.5% per year and 2.5% for the City of Hampton. Both (a) and (b) included an inflation component of 2.5% for the Component Unit-School Board and 2.5% for the City of Hampton. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

9. DEFINED BENEFIT PENSION PLAN PLANS, Continued:

Trend Information - VRS:

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>City of Hampton</u>	June 30, 2002	\$ 8,775,607	101.0 %	\$ 7,710
	June 30, 2003	8,667,691	100.0	602
	June 30, 2004	9,261,045	100.0	47
	June 30, 2005	12,876,657	100.0	4
	June 30, 2006	13,696,710	100.0	3
<u>Component Unit- School Board</u>	June 30, 2002	\$ 487,543	100.0 %	\$ -
	June 30, 2003	456,004	100.0	-
	June 30, 2004	470,069	100.0	-
	June 30, 2005	857,758	100.0	-
	June 30, 2006	879,862	100.0	-
<u>HRHA</u>	June 30, 2002	\$ 196,663	100.0 %	\$ -
	June 30, 2003	235,057	100.0	-
	June 30, 2004	215,875	100.0	-
	June 30, 2005	250,912	100.0	-
	June 30, 2006	186,391	100.0	-

Funding Progress - VRS:

City of Hampton:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (b) - (a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((b-a)/c)
06/30/99	\$ 182,835,831	\$ 214,674,739	\$ 31,838,908	85.2 %	\$ 54,923,121	58.00 %
06/30/00	211,382,274	224,968,461	13,586,187	94.0	58,044,579	23.41
06/30/01	232,379,871	243,900,202	11,520,331	95.3	59,189,302	19.46
06/30/02	239,128,739	264,577,425	25,448,686	90.4	62,329,076	40.83
06/30/03	240,538,972	288,026,339	47,487,367	83.5	65,896,624	72.06
06/30/04	243,297,349	306,998,629	63,701,280	79.3	69,541,014	91.60
06/30/05	250,399,226	329,738,788	79,339,562	75.9	73,842,561	107.44

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

9. DEFINED BENEFIT PENSION PLAN PLANS, Continued:

Component Unit – School Board:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (b) - (a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL (Funding Excess) as a percentage of Covered Payroll ((b-a)/c)
06/30/99	\$13,383,352	\$ 14,353,431	\$ 970,079	93.2 %	\$ 4,376,875	22.20 %
06/30/00	15,286,909	14,174,421	(1,112,488)	107.9	4,325,130	(25.72)
06/30/01	16,570,060	15,592,281	(977,779)	106.3	4,704,473	(20.78)
06/30/02	16,716,954	16,576,442	(140,512)	100.9	4,868,287	(2.89)
06/30/03	16,401,461	18,708,338	2,306,877	87.7	5,861,114	39.36
06/30/04	16,277,178	19,739,676	3,462,498	82.5	5,973,456	57.95
06/30/05	16,511,647	22,177,176	5,665,529	74.5	6,257,526	90.54

HRHA:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (b) - (a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL (Funding Excess) as a percentage of Covered Payroll ((b-a)/c)
06/30/99	\$ 7,131,650	\$ 6,075,846	\$ (1,055,804)	117.4 %	\$ 2,065,453	(51.10) %
06/30/00	8,252,008	6,078,423	(2,173,585)	135.8	2,130,044	(102.00)
06/30/01	8,985,596	6,460,457	(2,525,139)	139.1	1,829,424	(138.03)
06/30/02	9,119,645	7,475,450	(1,644,195)	122.0	2,186,850	(75.19)
06/30/03	8,981,376	7,285,211	(1,696,165)	123.3	2,008,139	(84.46)
06/30/04	9,024,879	7,853,174	(1,171,705)	114.9	2,334,064	(50.20)
06/30/05	9,064,409	9,066,103	1,694	99.9	2,104,837	0.08

10. DEFERRED COMPENSATION PLAN:

The City provides an approved deferred compensation plan, under Section 457 of the Internal Revenue Code, which is administered by the ICMA Retirement Corporation. All City employees are eligible to participate. The Internal Revenue Code requires that the plan assets and income attributed to those assets be held in trust for the exclusive benefit of the participants and/or beneficiaries. All amounts of employees' compensation deferred under the plan are deposited with the plan trustee, ICMA Retirement Corporation, for management and investment. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distribution to participants in accordance with the plan document.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

11. JOINT VENTURE:

The Hampton Roads Regional Jail Authority (the Authority), a political subdivision of the Commonwealth of Virginia, was created through an agreement by the Cities of Hampton, Newport News, Norfolk and Portsmouth (the member jurisdictions). The Authority has the responsibility to finance the acquisition, construction, and operation of a regional jail facility for the benefit of the member jurisdictions. Each member jurisdiction is responsible for paying the Authority a per diem charge, as established in the Authority's annual budget, for the care, maintenance and subsistence of prisoners from the member jurisdictions. The member jurisdictions have agreed to commit to the Authority its prisoners equal to its initial guaranteed capacity as follows: Hampton, 175 prisoners or 20%; Newport News, 200 prisoners or 22.86%; Norfolk, 250 prisoners or 28.57%; Portsmouth, 250 prisoners or 28.57%. The Authority shall make adjustments to the per diem charge as and when necessary to reconcile projected revenues and expenditures to actual revenues and expenditures and to comply with any revenue or other covenant related to the Bonds.

The Authority opened the jail facility on March 16, 1998. Summarized financial information for the Authority for fiscal year ending June 30, 2006 is as follows:

Revenues and other sources	\$ 29,930,911
Expenditures and other uses	<u>(29,316,297)</u>
Change in fund equity	614,614
Fund equity, July 1, 2005	<u>28,242,434</u>
Fund equity, June 30, 2006	<u>\$ 28,857,048</u>

The revenue bonds issued by the Authority are limited obligations of the Authority payable solely from net revenues and other funds derived from the ownership and operation of the regional jail.

Separate financial statements are available from the Hampton Roads Regional Jail Authority at 2690 Elmhurst Lane, Portsmouth, Virginia 23701-2745.

12. COMMITMENTS AND CONTINGENCIES:

Grants:

The City receives grant funds, principally from the U.S. government, for construction and various other programs. Expenditures from certain of these funds are subject to audit by the grantor, and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the management of the City, no material refunds will be required as a result of expenditures disallowed by grantors.

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

12. COMMITMENT AND CONTINGENCIES, Continued:

Leases:

The City leases various types of equipment under capital lease agreements (see Note 8). Under an operating lease, the City leases the Pembroke Community Service Center building from the Hampton Redevelopment and Housing Authority at an annual rent of \$343,872. In addition, the City leases space under operating leases for use as branches of the City's public library. The City also leases various City properties to other governmental agencies and businesses under operating lease agreements. The majority of these leases are cancelable within the next 12 months.

A summary of future minimum rental payments under the operating leases at June 30, 2006 is as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>	<u>Future Rental Income</u>
2007	353,118	29,593
2008	201,647	25,651
2009	180,000	4,098
2010	180,000	
2011	180,000	
2012-2018	720,000	
	<u>\$ 1,814,765</u>	<u>\$ 59,342</u>

The City's rental expense and rental income for the year ended June 30, 2006 amounted to \$1,633,003 and \$236,570 respectively.

The City has entered into several agreements relating to development projects along the downtown waterfront. These agreements involve commitments by the City to make certain loan principal and interest payments, capital expenditures, including land acquisition and site improvements, to induce private development on the waterfront. Substantially, all of these amounts have been appropriated in the Economic Development Fund.

The City has entered into several three-party agreements with the Hampton Redevelopment and Housing Authority (HRHA) and private developers related to specific development projects. These projects involve future lease commitments by the City. These commitments are as follows:

Harbour Center - \$505,401 annually for the lease of a garage facility through 2018. (A portion of the garage lease payments will be offset by fees charged for parking.)

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

12. COMMITMENT AND CONTINGENCIES, Continued:

A summary of future minimum rent payments under the operating lease with Harbor Center at June 30, 2006 is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	505,401
2008	505,401
2009	505,401
2010	505,401
2011	505,401
2012– 2016	2,527,005
2017 – 2018	<u>1,010,802</u>
	<u>\$ 6,064,812</u>

Self-Insurance:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City established a Risk Management Fund (internal service fund) to account for and finance its uninsured risks of loss except for medical claims which are accounted for in the General Fund.

The City and the Hampton City Schools are self-insured for a portion of its risks up to the following self-insured levels per occurrence:

	<u>City</u>	<u>Hampton City Schools</u>
Workers' Compensation	\$ 500,000	\$ 500,000
General Liability	1,000,000	1,000,000 (Auto)
Property Coverage	50,000	100,000
Medical Claims	100,000 per person/ plan year	

The City purchases commercial insurance for claims in excess of coverage provided by the Funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years.

All funds of the City participate in the program and make payments to the Risk Management and General Funds based on historical cost information. The unrestricted net assets of \$6,118,455 at June 30, 2006 are designated as a reserve for claims in the Risk Management Fund. The City accrues claims and judgments as incurred by a review of all claims on a case-by-case basis. Claims incurred, but not reported, were considered in the determination of the claims liability. Changes in the Funds' claims liability amount in fiscal years 2006, 2005 and 2004 were:

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

12. COMMITMENT AND CONTINGENCIES, Continued:

<u>Risk Management Fund</u>	<u>Claims Liability</u> <u>July 1</u>	<u>Incurred</u> <u>Claims</u>	<u>Claims</u> <u>Payment</u>	<u>Claims Liability</u> <u>June 30</u>
Fiscal Year 2006	\$ 2,291,298	\$ 1,720,883	\$ 780,210	\$ 3,231,971
Fiscal Year 2005	1,103,176	1,827,699	639,577	2,291,298
Fiscal Year 2004	2,264,784	472,283	1,633,891	1,103,176

<u>General Fund</u>	<u>Claims Liability</u> <u>July 1</u>	<u>Incurred</u> <u>Claims</u>	<u>Claims</u> <u>Payment</u>	<u>Claims Liability</u> <u>June 30</u>
Fiscal Year 2006	\$ 487,837	\$ 10,922,018	\$ 10,786,201	\$ 623,654
Fiscal Year 2005	383,408	10,942,321	10,837,892	487,837
Fiscal Year 2004	506,215	9,756,509	9,879,316	383,408

Various claims and lawsuits are pending against the City. In the opinion of City management, the resolutions of these cases would not involve a substantial liability to the City.

Letters of Credit:

SunTrust Bank issued two Standby Letters of Credit totaling \$5,000,000 on the behalf of the IDA in connection with its commitment under certain agreements for the development of the Bass Pro Project. During fiscal year 2005, Old Point National Bank issued a stand by Letter of Credit in the amount of \$3,000,000 on the behalf of the IDA in connection with its commitment under certain agreements for the National Institute of Aerospace Associates project. The City has agreed to pay the bank upon each drawing by the beneficiary under the Letters of Credit. During the fiscal year ended June 30, 2006, no draws were made under the Letters of Credit.

13. SURETY BONDS:

The City maintained the following surety bond coverage on certain employees during the fiscal year ended June 30, 2006:

<u>Official Covered</u>	<u>Description</u>	<u>Amount</u>
Darling Stadium Trustees	Gulf - Trustee Liability Coverage	\$2,000,000 aggregate
School assigned nurses	Columbia Casualty	\$3,000,000 aggregate
City Treasurer	Pennsylvania National Mutual Casualty Insurance Company	\$600,000 per occurrence for City Funds

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

13. SURETY BONDS, Continued:

The Commonwealth of Virginia maintains a Faithful Performance of Duty bond on Constitutional Officers pursuant to Sections 2.2-1840 and 15.2-1527 of the *Code of Virginia*. The coverage on the Treasurer does not extend to the loss of any City funds.

<u>Official Covered</u>	<u>Description</u>	<u>Amount</u>
Treasurer	Commonwealth of Virginia Faithful Performance of Duty Bond	\$1,500,000
Commissioner of Revenue	Commonwealth of Virginia Faithful Performance of Duty Bond	\$3,000
Clerk of the Circuit Court	Commonwealth of Virginia Faithful Performance of Duty Bond	\$3,000,000
Sheriff	Commonwealth of Virginia Faithful Performance of Duty Bond	\$30,000

14. POST RETIREMENT HEALTH CARE BENEFITS:

In addition to the pension benefits described in Note 9, the City and HRHA provides post-retirement health care benefits, in accordance with the City's Personnel Policies and Procedures Ordinance, to all full-time, salaried permanent employees and public safety officers who retire from the City on or after attaining age 55 and 50, respectively, with at least 5 years of service, as well as to employees who qualify for a disability retirement. Currently, 662 City retirees and 13 HRHA retirees meet these eligibility requirements. The employer's contribution ranges from 0% to 63% of the premiums based on the retiree's years of continuous health care coverage and the health care option selected by the retirees. The employer's contributions are financed on a pay-as-you-go basis. During fiscal year 2006, expenditures of \$1,729,816 and \$98,379 for the City and HRHA, respectively, were recognized for post-retirement health care benefits.

15. LEASE RECEIVABLES:

The IDA issued Revenue Bonds (Note 8) to improve land and buildings used by Whitney Rand Corporation and to construct the Peninsula Workforce Development Center (PWDC). Under terms of agreements with these organizations, revenues generated from the lease of the buildings are used to make the bond payments with the lease term being equivalent to the life of the bond. As of June 30, 2006, future lease receivables were \$2,033,720 from Whitney Rand and \$14,850,889 from PWDC. The minimum lease payments for the next five years are:

CITY OF HAMPTON, VIRGINIA
NOTES TO THE BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2006

15. LEASE RECEIVABLES, Continued:

<u>Year Ending June 30,</u>	<u>Whitney Rand</u>	<u>PWDC</u>
2007	\$ 165,488	\$ 990,059
2008	165,488	990,059
2009	165,488	990,059
2010	168,488	990,059
2011	165,188	990,059

Upon completion of PWDC, \$815,183 in unearned interest income was used to offset direct costs. This amount will be allocated over the life of the lease at \$40,466 per year.

16. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE:

The cumulative effect of change in accounting principle resulted from the addition of public domain ("infrastructure") assets constructed before fiscal year 2002, which was done in accordance with the transition provisions of GASB 34. The cumulative effect consisted of the following:

	<u>Adoption of GASB 34</u>
	<u>Governmental Activities</u>
Fund Balance as previously reported	\$ 105,426,622
Capital assets, net of accumulated depreciation	480,453,888
Beginning net assets, as restated	<u>\$ 585,880,510</u>

GENERAL FUNDS



CITY OF HAMPTON, VIRGINIA
GENERAL FUND
BALANCE SHEET
June 30, 2006

ASSETS

Cash and cash equivalents	\$ 54,768,954
Investments	10,402,851
Accounts receivables:	
Taxes (net of allowance for uncollectible of \$1,868,793)	5,766,044
Due from other governments	9,980,653
Other	5,289,705
Due from other funds	7,172,304
Due from component units	142,818
Inventories	<u>88,131</u>
Total assets	<u>\$ 93,611,460</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts payable	\$ 4,849,918
Accrued health insurance	3,257,139
Claims payable	623,654
Accrued liabilities	1,682,699
Deferred revenue	5,182,197
Due to other funds	6,207,760
Due to component units	<u>2,179,547</u>
Total liabilities	<u>23,982,914</u>
Fund balances:	
Reserved for:	
Encumbrances	1,225,382
Hazmat	9,473
Unreserved:	
Designated for succeeding year	16,187,054
Undesignated	<u>52,206,637</u>
Total fund balances	<u>69,628,546</u>
Total liabilities and fund balances	<u>\$ 93,611,460</u>

**CITY OF HAMPTON, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER CREDITS-BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2006**

	Budget July 1, 2005	Net Changes	Final June 30, 2006	Actual	Variance Over (Under)
General property taxes:					
Real estate	\$ 94,699,550	\$ -	\$ 94,699,550	\$ 98,826,833	\$ 4,127,283
Real estate BID	552,459		552,459	634,202	81,743
Public service	2,984,450		2,984,450	2,535,034	(449,416)
Personal property	29,832,473		29,832,473	33,322,157	3,489,684
Mobile homes	29,983		29,983	42,894	12,911
Machinery and tools	1,958,960		1,958,960	1,800,150	(158,810)
Delinquent taxes	970,000		970,000	817,037	(152,963)
Penalty	935,000	-	935,000	1,302,188	367,188
Total general property taxes	131,962,875	-	131,962,875	139,280,495	7,317,620
Other local taxes:					
Utility - cable television	1,584,000		1,584,000	1,813,163	229,163
Utility - telephone	2,561,000		2,561,000	2,881,068	320,068
Utility - electric and gas	4,800,000		4,800,000	4,578,874	(221,126)
Utility - cellular phone	2,085,000		2,085,000	2,363,974	278,974
Tobacco	4,100,000		4,100,000	3,888,803	(211,197)
Business license	10,799,708		10,799,708	11,751,121	951,413
Short-term rental	110,068		110,068	125,968	15,900
Sales and use	13,200,000		13,200,000	13,414,596	214,596
Recordation	900,000		900,000	2,286,788	1,386,788
Lodging and transit	3,200,000		3,200,000	2,963,337	(236,663)
Amusement	1,305,394		1,305,394	1,156,367	(149,027)
Meal	13,041,544		13,041,544	13,425,879	384,335
Motor vehicle	2,894,321		2,894,321	2,955,898	61,577
Bank stock	306,399		306,399	357,900	51,501
License tax - pari-mutual	117,013	-	117,013	113,463	(3,550)
Total other local taxes	61,004,447	-	61,004,447	64,077,199	3,072,752
License, permits and privilege fees					
Animal licenses	14,350		14,350	17,711	3,361
Street and taxi permits	68,930		68,930	52,452	(16,478)
Zoning and land use	666,180		666,180	729,996	63,816
Building permits	810,386		810,386	865,957	55,571
Miscellaneous	12,126	-	12,126	19,702	7,576
Total license, permits and privilege fees	1,571,972	-	1,571,972	1,685,818	113,846
Total fines and forfeitures	1,736,223	-	1,736,223	2,088,169	351,946
Revenue from use of money and property					
Interest on investments	600,000	-	600,000	2,317,107	1,717,107
Rental of property	98,281		98,281	98,378	97
Sale of materials and property	35,000		35,000	40,574	5,574
Vending machine commissions	9,500		9,500	12,404	2,904
Parking fees	107,322		107,322	59,802	(47,520)
Net decrease in fair value of investments	-	-	-	66,454	66,454
Total revenue from use of money and property	850,103	-	850,103	2,594,719	1,744,616

continued

**CITY OF HAMPTON, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER CREDITS-BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2006**

	Budget July 1, 2005	Net Changes	Final June 30, 2006	Actual	Variance Over (Under)
Charges for services:					
Fees:					
Court costs	\$ -	\$ -	\$ -	\$ 920	\$ 920
Clerk	360,000		360,000	538,749	178,749
Court officers	26,000		26,000	30,846	4,846
Recreation	1,646,558		1,646,558	2,098,219	451,661
Health Start	-		-	456,000	456,000
Animal Control	-		-	9,416	9,416
Sheriff	104,741		104,741	84,422	(20,319)
Legal services	7,200		7,200	7,200	-
Library	64,000		64,000	75,326	11,326
Ambulance services	1,161,502		1,161,502	2,251,696	1,090,194
Landfill host fees	400,000	-	400,000	487,719	87,719
Total charges for services	<u>3,770,001</u>	<u>-</u>	<u>3,770,001</u>	<u>6,040,513</u>	<u>2,270,512</u>
Miscellaneous revenue:					
Payment in lieu of taxes	63,185		63,185	62,722	(463)
Returned check charges	11,467		11,467	13,770	2,303
Unemployment fees	8,665		8,665	5,537	(3,128)
School reimbursement	995,183		995,183	1,056,328	61,145
Indirect cost	1,074,470		1,074,470	1,055,745	(18,725)
Other	260,000	-	260,000	832,207	572,207
Total miscellaneous revenue	<u>2,412,970</u>	<u>-</u>	<u>2,412,970</u>	<u>3,026,309</u>	<u>613,339</u>
Recovered costs:					
Jail operation	1,381,312		1,381,312	1,389,975	8,663
Probation	8,500		8,500	9,912	1,412
Police	6,830,218		6,830,218	6,982,914	152,696
NASA fire services	851,000		851,000	851,000	-
Miscellaneous	150,000	-	150,000	117,598	(32,402)
Total recovered cost	<u>9,221,030</u>	<u>-</u>	<u>9,221,030</u>	<u>9,351,399</u>	<u>130,369</u>
Noncategorical aid - state:					
ABC profits	85,847		85,847	85,847	-
Wine taxes	89,984		89,984	89,984	-
Vehicle rental and railroad tax	298,406		298,406	334,650	36,244
Mobile home titling tax	11,992		11,992	18,237	6,245
Tax on deeds	328,488	-	328,488	369,497	41,009
Total noncategorical aid - state	<u>814,717</u>	<u>-</u>	<u>814,717</u>	<u>898,215</u>	<u>83,498</u>
Shared expenses - state:					
Sheriff	6,183,891		6,183,891	5,735,178	(448,713)
Commonwealth Attorney	1,178,116		1,178,116	1,192,091	13,975
Commissioner of Revenue	295,516		295,516	294,139	(1,377)
Treasurer	288,938		288,938	289,956	1,018
Clerk of Courts	665,362		665,362	729,724	64,362
Registrar - election board	61,799		61,799	64,857	3,058
Medical examinations	3,000	-	3,000	930	(2,070)
Total shared expenses - state	<u>8,676,622</u>	<u>-</u>	<u>8,676,622</u>	<u>8,306,875</u>	<u>(369,747)</u>

continued

**CITY OF HAMPTON, VIRGINIA
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER CREDITS-BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2006**

	Budget July 1, 2005	Net Changes	Final June 30, 2006	Actual	Variance Over (Under)
Categorical aid - state:					
Public assistance	\$ 3,637,661	\$ 408,286	\$ 4,045,947	\$ 4,817,193	\$ 771,246
Street and highway maintenance	10,705,652		10,705,652	11,108,055	402,403
Public library books	202,881		202,881	202,881	-
Virginia juvenile block grant	441,197		441,197	441,197	-
Healthy start program	<u>225,000</u>	<u>-</u>	<u>225,000</u>	<u>225,000</u>	<u>-</u>
Total categorical aid - state	<u>15,212,391</u>	<u>408,286</u>	<u>15,620,677</u>	<u>16,794,326</u>	<u>1,173,649</u>
Categorical aid - federal:					
Pass thru - public assistance	10,990,704	465,113	11,455,817	10,943,290	(512,527)
Pass thru - LPACAP	-	888,000	888,000	-	(888,000)
Pass thru - Federal Emergency Management	<u>-</u>	<u>20,500</u>	<u>20,500</u>	<u>20,500</u>	<u>-</u>
Total categorical aid - federal	<u>10,990,704</u>	<u>1,373,613</u>	<u>12,364,317</u>	<u>10,963,790</u>	<u>(1,400,527)</u>
Noncategorical aid - federal					
Indirect costs - total	<u>218,000</u>	<u>-</u>	<u>218,000</u>	<u>268,000</u>	<u>50,000</u>
Total revenues	<u>248,442,055</u>	<u>1,781,899</u>	<u>250,223,954</u>	<u>265,375,827</u>	<u>15,151,873</u>
Other credits:					
Golf & Tennis - transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,334</u>	<u>33,334</u>
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,334</u>	<u>33,334</u>
Total revenues and transfers	<u>248,442,055</u>	<u>1,781,899</u>	<u>250,223,954</u>	<u>265,409,161</u>	<u>15,185,207</u>
Appropriations from fund balance	1,541,000	8,589,997	10,130,997	10,130,997	-
Appropriations - encumbrances	<u>-</u>	<u>1,360,618</u>	<u>1,360,618</u>	<u>1,360,618</u>	<u>-</u>
Total appropriations	<u>1,541,000</u>	<u>9,950,615</u>	<u>11,491,615</u>	<u>11,491,615</u>	<u>-</u>
Total revenues and other credits	<u>\$ 249,983,055</u>	<u>\$ 11,732,514</u>	<u>\$ 261,715,569</u>	<u>\$ 276,900,776</u>	<u>\$ 15,185,207</u>

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CITY OF HAMPTON, VIRGINIA
GENERAL FUND
SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
Fiscal Year Ended June 30, 2006

	Appropriations			Expenditures				Variance Under (Over)
	Budget July 1, 2005	Net Changes	Final June 30, 2006	Personal Services	Other Expenses	Capital Outlay	Total	
General Government								
Legislative:								
Municipal Council	\$ 425,115	\$ 36,083	\$ 461,198	\$ 320,066	\$ 90,440	\$ 15,166	\$ 425,672	\$ 35,526
Legislative - Total	425,115	36,083	461,198	320,066	90,440	15,166	425,672	35,526
Executive:								
City Manager	832,288	96,088	928,376	744,927	76,193	3,172	824,292	104,084
Budget and Analysis	319,022	39,178	358,200	290,565	33,789	3,591	327,945	30,255
Citizens Unity Commission	171,350	71,263	242,613	119,386	57,053	1,376	177,815	64,798
311 Call Center	544,029	73,430	617,459	476,364	42,358	6,019	524,741	92,718
Executive - Total	1,866,689	279,959	2,146,648	1,631,242	209,393	14,158	1,854,793	291,855
City Attorney:								
Law - City Attorney	982,084	53,162	1,035,246	906,957	101,508	2,070	1,010,535	24,711
City Attorney - Total	982,084	53,162	1,035,246	906,957	101,508	2,070	1,010,535	24,711
Human Resources - Total	633,554	132,278	765,832	504,421	101,349	8,126	613,896	151,936
Judicial:								
Clerk of Courts	816,210	107,478	923,688	660,167	111,399	36,768	808,334	115,354
Circuit Court	384,311	24,064	408,375	317,086	42,343	1,196	360,625	47,750
General District Court	201,231	17,631	218,862	71,485	134,526		206,011	12,851
District Court - J.D.R.	57,684	15,182	72,866		41,697	19,810	61,507	11,359
Commonwealth Attorney	1,301,976	65,438	1,367,414	1,229,031	99,939	10,505	1,339,475	27,939
City Sheriff - Administration	1,545,282	(23,041)	1,522,241	1,289,876	161,228		1,451,104	71,137
City Sheriff - Jail	5,933,910	503,945	6,437,855	4,526,280	1,707,725	128,347	6,362,352	75,503
Court Service Unit	2,044,658	274,802	2,319,460	81,176	1,094,568	774	1,176,518	1,142,942
Judicial - Total	12,285,262	985,499	13,270,761	8,175,101	3,393,425	197,400	11,765,926	1,504,835

	Appropriations			Expenditures				Variance Under (Over)
	Budget July 1, 2005	Net Changes	Final June 30, 2006	Personal Services	Other Expenses	Capital Outlay	Total	
General Government, continued:								
Boards and Commissions:								
Planning Commission	\$ 902,836	\$ 110,126	\$ 1,012,962	\$ 776,426	\$ 112,102	\$ 4,622	\$ 893,150	\$ 119,812
Elections Board	178,622	(21,371)	157,251	95,685	36,793	-	132,478	24,773
Registrar	220,204	164,385	384,589	159,729	19,716	148,513	327,958	56,631
Development	1,467,475	264,042	1,731,517	1,180,179	305,924	5,829	1,491,932	239,585
Neighborhood Services	615,174	52,549	667,723	480,978	128,976	18,463	628,417	39,306
Boards and Commissions - Subtotal	3,384,311	569,731	3,954,042	2,692,997	603,511	177,427	3,473,935	480,107
Agriculture - Extension Agent - Total	97,130	19,953	117,083	51,201	28,492	-	79,693	37,390
Nondepartmental:								
Nondepartmental	11,359,146	2,482,587	13,841,733		12,633,175		12,633,175	1,208,558
Civic and community support	941,083	525,996	1,467,079		1,445,458		1,445,458	21,621
Other	2,761,173	(1,185,134)	1,576,039	-	1,383,277	-	1,383,277	192,762
Nondepartmental - Subtotal	15,061,402	1,823,449	16,884,851	-	15,461,910	-	15,461,910	1,422,941
Less amount reflected as transfers	-	(286,351)	(286,351)	-	(152,800)	-	(152,800)	(133,551)
Nondepartmental - Total	15,061,402	1,537,098	16,598,500	-	15,309,110	-	15,309,110	1,289,390
Finance:								
Commissioner of Revenue	1,078,446	100,059	1,178,505	994,274	165,924	3,191	1,163,389	15,116
Assessment	685,285	103,129	788,414	621,876	90,965	27,334	740,175	48,239
City Treasurer	1,167,998	89,879	1,257,877	800,692	422,853	26,711	1,250,256	7,621
Procurement	409,242	13,310	422,552	360,891	47,117		408,008	14,544
Independent Auditors	110,082	37,025	147,107	1,628	124,869		126,497	20,610
Finance	1,003,315	320,784	1,324,099	832,288	123,533	16,012	971,833	352,266
Information Services	2,291,863	545,076	2,836,939	1,461,221	577,214	472,518	2,510,953	325,986
Finance - Total	6,746,231	1,209,262	7,955,493	5,072,870	1,552,475	545,766	7,171,111	784,382
Retirement and Employee Benefits								
Total	30,485,232	(5,391,411)	25,093,821	1,010,513	23,685,633	-	24,696,146	397,675

(Continued)

CITY OF HAMPTON, VIRGINIA
GENERAL FUND
SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
Fiscal Year Ended June 30, 2006

	Appropriations			Expenditures			Total	Variance Under (Over)
	Budget July 1, 2005	Net Changes	Final June 30, 2006	Personal Services	Other Expenses	Capital Outlay		
General Government, concluded:								
Public Works:								
Administration	\$ 384,747	\$ 254,820	\$ 639,567	\$ 299,712	\$ 102,230	\$ 4,370	\$ 406,312	\$ 233,255
Engineering	894,737	34,416	929,153	781,440	107,821	6,640	895,901	33,252
Property Maintenance	3,306,523	342,869	3,649,392	1,131,146	2,467,939	19,729	3,618,814	30,578
Parking Facilities	812,343	6,182	818,525	31,015	710,018	3,270	744,303	74,222
Public Works - Total	5,398,350	638,287	6,036,637	2,243,313	3,388,008	34,009	5,665,330	371,307
General Government - Total	77,365,360	69,901	77,435,261	22,608,681	48,463,344	994,122	72,066,147	5,369,114
Public Safety:								
Police Division	18,005,622	1,798,609	19,804,231	15,574,772	3,694,090	166,224	19,435,086	369,145
Traffic Engineering	2,614,657	51,767	2,666,424	770,378	1,841,618	15,605	2,627,601	38,823
Fire Division	13,270,758	2,175,057	15,445,815	12,752,770	2,168,115	278,135	15,199,020	246,795
Codes Compliance	1,743,682	121,568	1,865,250	1,517,232	316,546	1,787	1,835,565	29,685
Animal Control	262,086	-	262,086	-	262,086	-	262,086	-
Public Safety - Subtotal	35,896,805	4,147,001	40,043,806	30,615,152	8,282,455	461,751	39,359,358	684,448
Less amount reflected as transfers	-	(107,167)	(107,167)	-	(249,217)	-	(249,217)	142,050
Public Safety - Total	35,896,805	4,039,834	39,936,639	30,615,152	8,033,238	461,751	39,110,141	826,498
Highways and Streets - Total	2,416,490	170,825	2,587,315	1,248,292	1,054,425	284,566	2,587,283	32

	Appropriations			Expenditures				Variance Under (Over)
	Budget July 1, 2005	Net Changes	Final June 30, 2006	Personal Services	Other Expenses	Capital Outlay	Total	
Health:								
Preventive Medicine	\$ 1,290,980	\$ 137,665	\$ 1,428,645	\$ -	\$ 1,319,724	\$ 3,216	\$ 1,322,940	\$ 105,705
Drainage Maintenance	1,645,757	36,416	1,682,173	848,583	691,860	10,969	1,551,412	130,761
Health - Total	2,936,737	174,081	3,110,818	848,583	2,011,584	14,185	2,874,352	236,466
Human Services:								
Administration	7,806,344	934,588	8,740,932	5,734,902	2,927,598	78,432	8,740,932	-
Employment Services	1,368,417	(53,244)	1,315,173	933,426	372,627	9,120	1,315,173	-
Public Assistance	582,120	91,739	673,859		663,514		663,514	10,345
Purchase of Services	5,420,285	1,589,414	7,009,699		7,009,699		7,009,699	-
Prevention/Early Intervention Services	-	85,000	85,000		85,000		85,000	-
Emergency Fuel	37,513	13,335	50,848	46,900	3,948		50,848	-
Food Stamps	32,641	-	32,641	14,040	10,573		24,613	8,028
VISTA	483,187	(30,510)	452,677	192,443	259,534	700	452,677	-
Healthy Families Partnership	2,811,387	(76,617)	2,734,770	2,227,926	437,264	31,669	2,696,859	37,911
Coalition for Youth	461,152	89,974	551,126	188,379	249,746	1,799	439,924	111,202
Human Services - Total	19,003,046	2,643,679	21,646,725	9,338,016	12,019,503	121,720	21,479,239	167,486
Culture and Recreation:								
Recreation	3,437,050	731,594	4,168,644	2,902,917	1,056,252	9,742	3,968,911	199,733
Parks	5,900,113	185,884	6,085,997	3,267,598	2,422,880	206,102	5,896,580	189,417
Conventions and Tourism	3,081,116	295,875	3,376,991	1,068,766	1,943,313	23,364	3,035,443	341,548
Hampton History Museum	309,777	32,213	341,990	186,025	98,650	6,518	291,193	50,797
The Hamptons	630,000	-	630,000	-	630,000	-	630,000	-
Culture and Recreation - Subtotal	13,358,056	1,245,566	14,603,622	7,425,306	6,151,095	245,726	13,822,127	781,495
Less amount reflected as transfers	(630,000)	-	(630,000)	-	(630,000)	-	(630,000)	-
Culture and Recreation - Total	12,728,056	1,245,566	13,973,622	7,425,306	5,521,095	245,726	13,192,127	781,495

(Continued)

CITY OF HAMPTON, VIRGINIA
GENERAL FUND
SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
Fiscal Year Ended June 30, 2006

	Appropriations			Expenditures				Variance Under (Over)
	Budget July 1, 2005	Net Changes	Final June 30, 2006	Personal Services	Other Expenses	Capital Outlay	Total	
Education:								
School Operations	\$ 60,522,475	\$ -	\$ 60,522,475	\$ -	\$ 59,928,550	\$ -	\$ 59,928,550	\$ 593,925
Public Library	2,207,919	124,909	2,332,828	1,578,354	699,527	16,639	2,294,520	38,308
Education - Subtotal	62,730,394	124,909	62,855,303	1,578,354	60,628,077	16,639	62,223,070	632,233
Less amount reflected as transfers	-	-	-	-	-	-	-	-
Education - Total	62,730,394	124,909	62,855,303	1,578,354	60,628,077	16,639	62,223,070	632,233
Total expenditures	213,076,888	8,468,795	221,545,683	73,662,384	137,731,266	2,138,709	213,532,359	8,013,324
Operating Transfers Out:								
Capital Projects Funds	6,646,961	1,117,569	7,764,530		6,149,476		6,149,476	1,615,054
Enterprise Funds	8,035,219	60,000	8,095,219		8,054,573		8,054,573	40,646
Special Revenue Funds	2,334,741	860,768	3,195,509		3,047,755		3,047,755	147,754
Debt Service Funds	19,889,246	-	19,889,246	-	19,735,061	-	19,735,061	154,185
Transfers - Total	36,906,167	2,038,337	38,944,504	-	36,986,865	-	36,986,865	1,957,639
Total expenditures and transfers	\$ 249,983,055	\$ 10,507,132	\$ 260,490,187	\$ 73,662,384	\$ 174,718,131	\$ 2,138,709	\$ 250,519,224	\$ 9,970,963

NON-MAJOR GOVERNMENTAL FUNDS



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CITY OF HAMPTON, VIRGINIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	Special Revenue			
	Federal Grants	Community Development	EXCEL	Enhanced Emergency Telephone Service
ASSETS				
Cash and cash equivalents	\$ 595,503	\$ 783,543	\$ 200	\$ 56,089
Accounts receivable				
Due from other governments	2,361,401	361,804		
Other		296	322,986	175,834
Notes receivable		57,292		
Due from other funds	583,705	1,000	89,269	
	<u>583,705</u>	<u>1,000</u>	<u>89,269</u>	<u></u>
Total assets	<u>\$ 3,540,609</u>	<u>\$ 1,203,935</u>	<u>\$ 412,455</u>	<u>\$ 231,923</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,356,780	\$ 247,298	\$ 41,852	\$ 7,392
Accrued liabilities	45,229	6,826	8,112	42,801
Due to other funds	785,153	16,632	273,984	44,371
Deferred revenues	1,353,447	933,179	7,294	
	<u>1,353,447</u>	<u>933,179</u>	<u>7,294</u>	<u></u>
Total liabilities	<u>3,540,609</u>	<u>1,203,935</u>	<u>331,242</u>	<u>94,564</u>
Fund Balances				
Unreserved				
Designated for:				
Specific projects - Permanent funds				
Specific projects - Special Revenue funds			81,213	
E911 system - Special Revenue funds				137,359
Undesignated, reported in:				
Special Revenue funds				
	<u></u>	<u></u>	<u></u>	<u></u>
Total fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>81,213</u>	<u>137,359</u>
Total liabilities and fund balances	<u>\$ 3,540,609</u>	<u>\$ 1,203,935</u>	<u>\$ 412,455</u>	<u>\$ 231,923</u>

Exhibit C - 1

Special Revenue			Permanent Fund	Total Non-major Governmental Funds
Storm Water Management	Pembroke Complex	Law Library	Pearl I. Young	
\$ 3,234,479	\$ 212,221	\$ 109,759	\$ -	\$ 4,991,794
				2,723,205
167,510		334	61,244	728,204
				57,292
				673,974
<u>\$ 3,401,989</u>	<u>\$ 212,221</u>	<u>\$ 110,093</u>	<u>\$ 61,244</u>	<u>\$ 9,174,469</u>
\$ 15,821	\$ 12,817	\$ 2,492	\$ -	\$ 1,684,452
29,086	1,621	272		133,947
149,615	21,424			1,291,179
167,510				2,461,430
<u>362,032</u>	<u>35,862</u>	<u>2,764</u>		<u>5,571,008</u>
			61,244	61,244
	176,359	107,329		364,901
				137,359
<u>3,039,957</u>				<u>3,039,957</u>
<u>3,039,957</u>	<u>176,359</u>	<u>107,329</u>	<u>61,244</u>	<u>3,603,461</u>
<u>\$ 3,401,989</u>	<u>\$ 212,221</u>	<u>\$ 110,093</u>	<u>\$ 61,244</u>	<u>\$ 9,174,469</u>

CITY OF HAMPTON, VIRGINIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2006

	Special Revenue			
	Federal Grants	Community Development	EXCEL	Enhanced Emergency Telephone Service
REVENUES				
Other local taxes	\$	\$	\$ 1,314,857	\$ 2,033,992
Intergovernmental revenues:				
From the Commonwealth of Virginia	7,165,868		5,000	425,695
From the Federal government	2,308,966	2,007,676		
Revenues form use of money and property	4,226		17,000	
Charges for services				
Miscellaneous	272,145	395,171	436,866	
Total revenues	9,751,205	2,402,847	1,773,723	2,459,687
EXPENDITURES				
Current				
General government	323,356	2,402,847	439,695	3,052,618
Public safety	4,599,113			
Sanitation				
Human services	7,097,495			
Culture and recreation	96,551		1,453,277	
Total expenditures	12,116,515	2,402,847	1,892,972	3,052,618
Excess (deficiency) of revenues over (under) expenditures	(2,365,310)		(119,249)	(592,931)
OTHER FINANCING SOURCES (USES)				
Transfers in	2,365,310		226,445	511,000
Transfers out				
Total other financing sources (uses)	2,365,310		226,445	511,000
Net change in fund balances			107,196	(81,931)
Fund balances - beginning			(25,983)	219,290
Fund balances - ending	\$ -	\$ -	\$ 81,213	\$ 137,359

Exhibit C - 2

Special Revenue			Permanent Fund	
Storm Water Management	Pembroke Complex	Law Library	Pearl I. Young	Total Non-major Governmental Funds
\$	\$	\$	\$	\$ 3,348,849
				7,596,563
				4,316,642
	371,872	2,896	1,432	397,426
3,866,230				3,866,230
147		45,710		1,150,039
3,866,377	371,872	48,606	1,432	20,675,749
	374,848	48,248		6,641,612
				4,599,113
2,346,204				2,346,204
				7,097,495
				1,549,828
2,346,204	374,848	48,248		22,234,252
1,520,173	(2,976)	358	1,432	(1,558,503)
				3,102,755
(895,961)				(895,961)
(895,961)				2,206,794
624,212	(2,976)	358	1,432	648,291
2,415,745	179,335	106,971	59,812	2,955,170
\$ 3,039,957	\$ 176,359	\$ 107,329	\$ 61,244	\$ 3,603,461

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NON-MAJOR ENTERPRISE FUNDS



CITY OF HAMPTON, VIRGINIA
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2006

	Business-Type Activities - Non Major Enterprise Funds			
	Coliseum	Woodlands	Solid Waste	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,980,257	\$ 55,583	\$ 2,729,255	\$ 7,765,095
Accounts receivable	73,785	1,920	1,577,610	1,653,315
Due from other funds	39,890		43,299	83,189
Due from component unit			11,292	11,292
Inventories	60,612	37,851		98,463
Total current assets	5,154,544	95,354	4,361,456	9,611,354
Noncurrent assets:				
Capital Assets:				
Land and improvements	164,079	2,295,538	4,811,174	7,270,791
Buildings and improvements	13,041,420	1,001,826		14,043,246
Improvements other than buildings	1,726,051	527,712	2,971	2,256,734
Equipment	1,291,811	453,887	9,571,028	11,316,726
Construction in progress	598,659			598,659
Less accumulated depreciation	(11,679,281)	(1,211,309)	(10,976,211)	(23,866,801)
Total noncurrent assets	5,142,739	3,067,654	3,408,962	11,619,355
Total assets	\$ 10,297,283	\$ 3,163,008	\$ 7,770,418	\$ 21,230,709
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 197,073	\$ 12,948	\$ 346,368	\$ 556,389
Accrued leave	38,536	15,058	79,721	133,315
Due to other funds	49,927	944,329	41,872	1,036,128
Deferred revenue	547,029	16,640		563,669
Current portion of long-term debt		32,720		32,720
Other liabilities	51,852	20,733	40,453	113,038
Total current liabilities	884,417	1,042,428	508,414	2,435,259
Noncurrent liabilities:				
Accrued leave	57,098	20,928	123,240	201,266
Obligations under capital leases		19,692		19,692
Total noncurrent liabilities	57,098	40,620	123,240	220,958
Total liabilities	941,515	1,083,048	631,654	2,656,217
NET ASSETS				
Invested in capital assets	5,142,739	3,015,243	3,408,962	11,566,944
Unrestricted	4,213,029	(935,283)	3,729,802	7,007,548
Total net assets, net of related debt	9,355,768	2,079,960	7,138,764	18,574,492
Total net assets and liabilities	\$ 10,297,283	\$ 3,163,008	\$ 7,770,418	\$ 21,230,709

CITY OF HAMPTON, VIRGINIA
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2006

	<u>Coliseum</u>	<u>Woodlands</u>	<u>Solid Waste</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 7,937,995	\$ 869,790	\$ 10,076,711	\$ 18,884,496
Total operating revenues	<u>7,937,995</u>	<u>869,790</u>	<u>10,076,711</u>	<u>18,884,496</u>
Operating expenses:				
Personnel services	1,231,888	478,773	2,107,189	3,817,850
Fringe benefits	337,912	126,349	729,882	1,194,143
Promoter's fees	3,282,339			3,282,339
City-sponsored events	885,704			885,704
Cost of goods sold	166,103	46,617		212,720
Utilities	271,916	67,174	1,174	340,264
Insurance	142,765	15,017	131,297	289,079
Operating supplies	476,449	104,742	150,715	731,906
Equipment rental	14,835	27,700	220	42,755
Equipment and building repairs	190,147	32,579	1,136,469	1,359,195
Telephone and postage	28,914	5,750	4,325	38,989
Amusement tax	518,983			518,983
General expense	119,296	5,212	84,125	208,633
Landfill costs			3,776,647	3,776,647
Contractual services	173,384	36,122	539,132	748,638
Indirect costs	120,000		356,470	476,470
Depreciation and amortization	477,414	80,669	846,405	1,404,488
Total operating expenses	<u>8,438,049</u>	<u>1,026,704</u>	<u>9,864,050</u>	<u>19,328,803</u>
Operating income (loss)	<u>(500,054)</u>	<u>(156,914)</u>	<u>212,661</u>	<u>(444,307)</u>
Nonoperating revenues (expenses):				
Interest and fiscal charges		(2,633)	(1,404)	(4,037)
Other			46,876	46,876
Total nonoperating revenues (expenses)		<u>(2,633)</u>	<u>45,472</u>	<u>42,839</u>
Income (loss) before capital contributions and transfers	<u>(500,054)</u>	<u>(159,547)</u>	<u>258,133</u>	<u>(401,468)</u>
Transfers in (out)		<u>(33,334)</u>	<u>(55,000)</u>	<u>(88,334)</u>
Change in net assets	<u>(500,054)</u>	<u>(192,881)</u>	<u>203,133</u>	<u>(489,802)</u>
Total net assets - beginning	<u>9,855,822</u>	<u>2,272,841</u>	<u>6,935,631</u>	<u>19,064,294</u>
Total net assets - ending	<u>\$ 9,355,768</u>	<u>\$ 2,079,960</u>	<u>\$ 7,138,764</u>	<u>\$ 18,574,492</u>

CITY OF HAMPTON, VIRGINIA
NON-MAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2006

	Coliseum	Woodlands	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 8,510,099	\$ 866,642	\$ 10,352,236	\$ 19,728,977
Cash payments to suppliers for goods and services	(6,849,437)	(473,676)	(6,860,846)	(14,183,959)
Cash payments to employees for services	(1,218,848)	(446,676)	(2,366,005)	(4,031,529)
Net cash provided by (used in) operating activities	<u>441,814</u>	<u>(53,710)</u>	<u>1,125,385</u>	<u>1,513,489</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers in from other funds	-	(33,334)	(55,000)	(88,334)
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>(33,334)</u>	<u>(55,000)</u>	<u>(88,334)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(852,163)	(23,981)	(691,004)	(1,567,148)
Principal paid on revenue bond maturities and long-term debt		(31,455)	(93,000)	(124,455)
Interest paid on revenue bonds and long-term debt		(2,633)	(1,404)	(4,037)
Net cash provided by (used in) capital and related financing activities	<u>(852,163)</u>	<u>(58,069)</u>	<u>(785,408)</u>	<u>(1,695,640)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents (including restricted amounts)	(410,349)	(145,113)	284,977	(270,485)
Cash and cash equivalents, July 1	<u>5,390,606</u>	<u>200,696</u>	<u>2,444,278</u>	<u>8,035,580</u>
Cash and cash equivalents, June 30	<u>\$ 4,980,257</u>	<u>\$ 55,583</u>	<u>\$ 2,729,255</u>	<u>\$ 7,765,095</u>
Operating income (loss)	<u>\$ (500,054)</u>	<u>\$ (156,914)</u>	<u>\$ 212,661</u>	<u>\$ (444,307)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization expense	477,414	80,669	846,405	1,404,488
Decrease (increase) in:				-
Accounts receivable	33,044	1,632	33,557	68,233
Notes receivable				-
Due from other funds	(31,235)	-	195,363	164,128
Due from component units			(270)	(270)
Inventories	(27,436)	(5,417)		(32,853)
Increase (decrease) in:				
Accounts payable	(69,541)	9,035	49,609	(10,897)
Accrued leave	8,422	20,928	37,778	67,128
Due to other funds	(509)	7,374	(301,655)	(294,790)
Other liabilities	12,651	(6,237)	5,061	11,475
Nonoperating revenues reported as operating			46,876	46,876
Deferred revenue	<u>539,058</u>	<u>(4,780)</u>	<u>-</u>	<u>534,278</u>
Total adjustments	<u>941,868</u>	<u>103,204</u>	<u>912,724</u>	<u>1,957,796</u>
Net cash provided by (used in) operating activities	<u>\$ 441,814</u>	<u>\$ (53,710)</u>	<u>\$ 1,125,385</u>	<u>\$ 1,513,489</u>

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INTERNAL SERVICE FUNDS



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CITY OF HAMPTON, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2006

	Equipment Replacement	Fleet Management	Risk Management	Refuse-Steam Plant	Information Technology	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,954,442	\$ 252,373	\$ 9,315,781	\$ 605,394	\$ 909,805	\$ 17,037,795
Cash with fiscal agent	145		102,472			102,617
Accounts receivable	24,585	4,407	28,611	82,302	13,011	152,916
Due from other funds	1,880,975	75,070	36,194		128,367	2,120,606
Due from component unit		33,949			28	33,977
Inventories		181,369				181,369
Total current assets	7,860,147	547,168	9,483,058	687,696	1,051,211	19,629,280
Noncurrent assets:						
Capital assets:						
Improvements other than buildings				14,023,199		14,023,199
Equipment	26,820,397	784,746	19,234	2,531,983	475,955	30,632,315
Construction in progress				6,073,825		6,073,825
Less accumulated depreciation	(17,298,665)	(414,715)	(17,087)	(12,708,046)	(469,738)	(30,908,251)
Total noncurrent assets	9,521,732	370,031	2,147	9,920,961	6,217	19,821,088
Total assets	\$ 17,381,879	\$ 917,199	\$ 9,485,205	\$ 10,608,657	\$ 1,057,428	\$ 39,450,368
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 202,870	\$ 253,776	\$ 103,670	\$ 94,146	\$ 55,054	\$ 709,516
Accrued interest payable				74,106		74,106
Accrued leave		61,056	12,415	28,533	17,734	119,738
Due to other funds	905	107,124	603	61,849	4,552	175,033
Deferred revenue			685		38,265	38,950
Current portion of long-term debt	60,385		2,181,860	233,396		2,475,641
Other liabilities		19,425	5,049	26,711	7,043	58,228
Total current liabilities	264,160	441,381	2,304,282	518,741	122,648	3,651,212
Noncurrent liabilities:						
Claims payable			1,050,109			1,050,109
Accrued leave		35,123	10,212	96,244	5,614	147,193
Notes payable	627,199			6,027,245		6,654,444
Total noncurrent liabilities	627,199	35,123	1,060,321	6,123,489	5,614	7,851,746
Total liabilities	891,359	476,504	3,364,603	6,642,230	128,262	11,502,958
NET ASSETS						
Invested in capital assets, net of related debt	8,834,148	370,031	2,147	3,660,320	6,217	12,872,863
Unrestricted	7,656,372	70,664	6,118,455	306,107	922,949	15,074,547
Total net assets	16,490,520	440,695	6,120,602	3,966,427	929,166	27,947,410
Total liabilities and net assets	\$ 17,381,879	\$ 917,199	\$ 9,485,205	\$ 10,608,657	\$ 1,057,428	\$ 39,450,368

CITY OF HAMPTON, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	Equipment Replacement	Fleet Management	Risk Management	Refuse-Steam Plant	Information Technology	Total
Operating revenues:						
Charges for services	\$ 2,117,527	\$ 4,406,884	\$ 6,080,927	\$ 4,664,877	\$ 1,714,127	\$ 18,984,342
Total operating revenues	2,117,527	4,406,884	6,080,927	4,664,877	1,714,127	18,984,342
Operating expenses:						
Personnel services		1,020,446	237,672	1,431,924	290,085	2,980,127
Fringe benefits		323,615	64,752	442,437	79,419	910,223
Cost of goods sold		2,928,021				2,928,021
Utilities		51,138		264,668		315,806
Insurance		35,991	1,576,275	168,547	2,250	1,783,063
Operating supplies		105,987	3,647	241,176	94,488	445,298
Equipment rental		12,197	20,886	20,134	40,513	93,730
Equipment and building repairs		68,819		569,189	174,810	812,818
Telephone and postage		11,162	6,492	13,689	730,548	761,891
General expense	2,547	36,619	21,123	19,030	32,014	111,333
Claims			3,725,204			3,725,204
Landfill costs				490,048		490,048
Contractual services		18,030		225,721	14,013	257,764
Indirect costs				218,000		218,000
Depreciation and amortization	2,117,527	69,622	5,152	465,614	5,627	2,663,542
Total operating expenses	2,120,074	4,681,647	5,661,203	4,570,177	1,463,767	18,496,868
Operating income (loss)	(2,547)	(274,763)	419,724	94,700	250,360	487,474
Nonoperating revenues (expenses):						
Interest income	227,117		273,439	16,624		517,180
Interest and fiscal charges	(50,078)			(320,728)		(370,806)
Other				20,113		20,113
Gain (loss) on sale of capital assets	103,422	(1,086)			(1,295)	101,041
Total nonoperating revenues (expenses)	280,461	(1,086)	273,439	(283,991)	(1,295)	267,528
Income (loss) before capital contributions and transfers	277,914	(275,849)	693,163	(189,291)	249,065	755,002
Capital contributions	454,883	91,897				546,780
Change in net assets	732,797	(183,952)	693,163	(189,291)	249,065	1,301,782
Total net assets - beginning	15,757,723	624,647	5,427,439	4,155,718	680,101	26,645,628
Total net assets - ending	\$ 16,490,520	\$ 440,695	\$ 6,120,602	\$ 3,966,427	\$ 929,166	\$ 27,947,410

CITY OF HAMPTON, VIRGINIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2006

	Equipment Replacement	Fleet Management	Risk Management	Refuse-Steam Plant	Information Technology	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 2,117,527	\$ 4,755,807	\$ 6,371,215	\$ 4,797,991	\$ 1,751,493	\$ 19,794,033
Grants received						-
Cash payments to suppliers for goods and services	(2,161)	(3,192,779)	(4,483,784)	(2,819,138)	(1,189,944)	(11,687,806)
Cash payments to employees for services	-	(1,368,464)	(231,879)	(1,419,543)	(282,285)	(3,302,171)
Net cash provided by (used in) operating activities	<u>2,115,366</u>	<u>194,564</u>	<u>1,655,552</u>	<u>559,310</u>	<u>279,264</u>	<u>4,804,056</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Operating transfers in from other funds	18,397					18,397
Cash paid to other funds	(47,422)	-	-	-	-	(47,422)
Net cash provided by (used in) noncapital financing activities	<u>(29,025)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,025)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Acquisition and construction of capital assets	(3,265,447)	(3,343)		(3,496,731)	(2,562)	(6,768,083)
Principal paid on revenue bond maturities and long-term debt	(547,446)			(183,220)		(730,666)
Interest paid on revenue bonds and long-term debt	(50,078)			(298,935)		(349,013)
Proceeds from issuance of revenue bonds and long-term debt				1,693,315		1,693,315
Proceeds from sale of capital assets	<u>109,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>109,073</u>
Net cash provided by (used in) capital and related financing activities	<u>(3,753,898)</u>	<u>(3,343)</u>	<u>-</u>	<u>(2,285,571)</u>	<u>(2,562)</u>	<u>(6,045,374)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends on investments	<u>214,995</u>	<u>-</u>	<u>273,438</u>	<u>18,895</u>	<u>-</u>	<u>507,328</u>
Net cash provided by (used in) investing activities	<u>214,995</u>	<u>-</u>	<u>273,438</u>	<u>18,895</u>	<u>-</u>	<u>507,328</u>
Net increase (decrease) in cash and cash equivalents (including restricted amounts)	(1,452,562)	191,221	1,928,990	(1,707,366)	276,702	(763,015)
Cash and cash equivalents, July 1	<u>7,407,149</u>	<u>61,152</u>	<u>7,489,263</u>	<u>2,312,760</u>	<u>633,103</u>	<u>17,903,427</u>
Cash and cash equivalents, June 30	<u>\$ 5,954,587</u>	<u>\$ 252,373</u>	<u>\$ 9,418,253</u>	<u>\$ 605,394</u>	<u>\$ 909,805</u>	<u>\$ 17,140,412</u>

continued

Exhibit E-3

	Equipment Replacement	Fleet Management	Risk Management	Refuse-Steam Plant	Information Technology	Totals
Operating income (loss)	\$ (2,547)	\$ (274,763)	\$ 419,724	\$ 94,700	\$ 250,360	\$ 487,474
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization expense	2,117,527	69,622	5,152	465,614	5,627	2,663,542
Decrease (increase) in:						
Accounts receivable		3,031	(17,312)	95,643	4,566	85,928
Due from other funds	18,397	344,860	306,916	843,899	(5,464)	1,508,608
Due from component units		1,030				1,030
Inventories		(53,362)				(53,362)
Increase (decrease) in:						
Accounts payable	65,355	38,141	(6,157)	(809,737)	(22,733)	(735,131)
Accrued leave		(24,393)	4,792	12,072	5,191	(2,338)
Due to other funds	(47,422)	90,465	79	(197,097)	844	(153,131)
Due to component units						-
Other liabilities		(67)	1,002	307	2,608	3,850
Deferred revenue			685		38,265	38,950
Current portion of long-term debt reported as operating activity			97,788			97,788
Due to other funds reported as nonoperating activities	29,026			(824,269)		(795,243)
Accounts payable reported as nonoperating activities	(64,970)			860,336		795,366
Long-term accrued insurance claims reported as operating activity			842,883			842,883
Accounts receivable reported as operating activity				(2,271)		(2,271)
Nonoperating revenues reported as operating revenues	-	-	-	20,113	-	20,113
Total adjustments	2,117,913	469,327	1,235,828	464,610	28,904	4,316,582
Net cash provided by (used in) operating activities	\$ 2,115,366	\$ 194,564	\$ 1,655,552	\$ 559,310	\$ 279,264	\$ 4,804,056
			-			
Non-cash transactions affecting investing capital and related financing activities:						
Acquisition of capital assets through other funds' capital contributions	\$ 454,883	\$ 91,897	\$ -	\$ -	\$ -	\$ 546,780
Total non-cash transactions	\$ 454,883	\$ 91,897	\$ -	\$ -	\$ -	\$ 546,780

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FIDUCIARY FUNDS



CITY OF HAMPTON, VIRGINIA
FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Fiscal Year Ended June 30, 2006

	Balance, July 1, 2005	Additions	Deductions	Balance, June 30, 2006
<u>Special Welfare Fund</u>				
ASSETS				
Cash and cash equivalents	\$ 172,024	\$ 233,476	\$ 219,424	\$ 186,076
Accounts receivable	-	188	175	13
	<u>\$ 172,024</u>	<u>\$ 233,664</u>	<u>\$ 219,599</u>	<u>\$ 186,089</u>
LIABILITIES				
Deposits	\$ 159,402	\$ 174,132	\$ 152,725	\$ 180,809
Accounts payable	12,622	27,493	34,835	5,280
	<u>\$ 172,024</u>	<u>\$ 201,625</u>	<u>\$ 187,560</u>	<u>\$ 186,089</u>
<u>Agency Fund</u>				
ASSETS				
Cash and cash equivalents	\$ 432,536	\$ 4,420,271	\$ 264,687	\$ 4,588,120
Accounts receivable	150,000	250	150,000	250
	<u>\$ 582,536</u>	<u>\$ 4,420,521</u>	<u>\$ 414,687</u>	<u>\$ 4,588,370</u>
LIABILITIES				
Deposits	\$ 567,045	\$ 460,605	\$ 298,579	\$ 729,071
Accounts payable	15,491	4,807,567	963,759	3,859,299
	<u>\$ 582,536</u>	<u>\$ 5,268,172</u>	<u>\$ 1,262,338</u>	<u>\$ 4,588,370</u>
<u>Total - All Agency Funds</u>				
ASSETS				
Cash and cash equivalents	\$ 604,560	\$ 4,653,747	\$ 484,111	\$ 4,774,196
Accounts receivable	150,000	438	150,175	263
	<u>\$ 754,560</u>	<u>\$ 4,654,185</u>	<u>\$ 634,286</u>	<u>\$ 4,774,459</u>
LIABILITIES				
Deposits	\$ 726,447	\$ 634,737	\$ 451,304	\$ 909,880
Accounts payable and accrued liabilities	28,113	4,835,060	998,594	3,864,579
	<u>\$ 754,560</u>	<u>\$ 5,469,797</u>	<u>\$ 1,449,898</u>	<u>\$ 4,774,459</u>

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**DISCRETELY PRESENTED
COMPONENT UNIT - SCHOOL BOARD**



CITY OF HAMPTON, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
COMBINING BALANCE SHEET
June 30, 2006

	Operating	Student Activities	Food Services	Special Revenue	Reimbursable Projects	Total
ASSETS						
Cash and cash equivalents	\$ 28,096	\$ 79,327	\$ 2,118,518	\$ 171,052	\$ 284,827	\$ 2,681,820
Investments				10,500		10,500
Accounts receivables	374,526					374,526
Due from primary government	1,639,860					1,639,860
Due from other funds	1,612,654	16,236	6,289			1,635,179
Due from other governments	2,571,199		292,375	135	1,609,491	4,473,200
Inventories	-	-	200,507	-	-	200,507
Total assets	<u>\$ 6,226,335</u>	<u>\$ 95,563</u>	<u>\$ 2,617,689</u>	<u>\$ 181,687</u>	<u>\$ 1,894,318</u>	<u>\$ 11,015,592</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and other liabilities	\$ 1,093,672	\$ 120	\$ 7,145	\$ -	\$ 53,874	\$ 1,154,811
Due to other funds	6,289		398,965	500	1,229,425	1,635,179
Due to primary government	45,477					45,477
Deferred revenue	-	-	-	-	611,019	611,019
Total liabilities	<u>1,145,438</u>	<u>120</u>	<u>406,110</u>	<u>500</u>	<u>1,894,318</u>	<u>3,446,486</u>
Fund balance						
Reserved for encumbrances	4,020,975					4,020,975
Unreserved						
Designated for schools	1,059,922	95,443	2,211,579	181,187	-	3,548,131
Total fund balance	<u>5,080,897</u>	<u>95,443</u>	<u>2,211,579</u>	<u>181,187</u>	<u>-</u>	<u>7,569,106</u>
Total liabilities and fund balances	<u>\$ 6,226,335</u>	<u>\$ 95,563</u>	<u>\$ 2,617,689</u>	<u>\$ 181,687</u>	<u>\$ 1,894,318</u>	<u>\$ 11,015,592</u>

Reconciliation of the School Board's Combining Balance Sheet to the Combining Statement of Activities (exhibit A-12)

Total fund balance	\$ 7,569,106
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds. (Note 6)	85,641,002
Accumulated depreciation on capital assets. (Note 6)	(67,558,048)
Other assets not available to pay current-period expenditures and, therefore, are deferred in the funds.	56,993
Long-term liabilities incurred for capital assets. (Note 8)	
Long-term liability for compensated absences. (Note 8)	(8,832,890)
Net assets of governmental activities	<u>\$ 16,876,163</u>

CITY OF HAMPTON, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ended June 30, 2006

	<u>Operating</u>	<u>Student Activities</u>	<u>Food Services</u>	<u>Special Revenue</u>	<u>Reimbursable Projects</u>	<u>Total</u>
REVENUES						
State funds	\$ 119,142,620	\$ -	\$ 236,930	\$ -	\$ 1,636,456	\$ 121,016,006
Federal fund (includes pass through)	1,340,894		5,294,805		14,722,757	21,358,456
Other receipts	581,870	152,676	2,995,545	11,066	616,221	4,357,378
Payments from City	59,928,550					59,928,550
Net increase in fair value of investments	-	-	-	1,401	-	1,401
Total revenues	<u>180,993,934</u>	<u>152,676</u>	<u>8,527,280</u>	<u>12,467</u>	<u>16,975,434</u>	<u>206,661,791</u>
EXPENDITURES						
Education	<u>179,208,996</u>	<u>464,284</u>	<u>7,496,538</u>	<u>500</u>	<u>16,959,198</u>	<u>204,129,516</u>
Excess of revenues over (under) expenditures	<u>1,784,938</u>	<u>(311,608)</u>	<u>1,030,742</u>	<u>11,967</u>	<u>16,236</u>	<u>2,532,275</u>
OTHER FINANCING SOURCES (USES)						
Transfer from:						
Food Services Fund	260,000					260,000
School Operating Fund		265,000				265,000
Reimbursable Projects Fund		16,236				16,236
Transfer to:						
School Operating Fund			(260,000)			(260,000)
Student Activities Fund	(265,000)	-	-	-	(16,236)	(281,236)
Total other sources (uses)	<u>(5,000)</u>	<u>281,236</u>	<u>(260,000)</u>	<u>-</u>	<u>(16,236)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>1,779,938</u>	<u>(30,372)</u>	<u>770,742</u>	<u>11,967</u>	<u>-</u>	<u>2,532,275</u>
Fund balance - July 1	<u>3,300,959</u>	<u>125,815</u>	<u>1,440,837</u>	<u>169,220</u>	<u>-</u>	<u>5,036,831</u>
Fund balance - June 30	<u>\$ 5,080,897</u>	<u>\$ 95,443</u>	<u>\$ 2,211,579</u>	<u>\$ 181,187</u>	<u>\$ -</u>	<u>\$ 7,569,106</u>

Reconciliation of the School Board's Combining Statement of Revenues, Expenditures and Changes in Fund Balance to the Combining Statement of Activities (Exhibit A-12)

Net change in fund balances - total school funds	\$ 2,532,275
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. (Note 6)	
Capital outlay	2,179,743
Depreciation expense	(3,485,732)
In the statement of activities, the loss on disposal of capital assets is reported. However, in the governmental funds, only the proceeds from sale increase financial resources. The change in net assets differs from the change in fund balance by the net book value of the capital assets abandoned. (Note 6)	(35,323)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	1,197
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. (Note 8)	415,581
Increase of compensated absences reported in the Statement of Activities does not provide current financial resources and therefore is not reported in the governmental funds. (Note 8)	(1,618,963)
Change in net assets of governmental activities	<u>\$ (11,222)</u>

CITY OF HAMPTON, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Fiscal Year Ended June 30, 2006

	School Board - School Operating Fund			
	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
REVENUES				
Intergovernmental:				
State funds	\$ 122,786,892	\$ 122,786,892	\$ 119,142,620	\$ (3,644,272)
Federal funds (includes pass through)	1,239,378	1,239,378	1,340,894	101,516
Miscellaneous	90,000	90,000	581,870	491,870
Payments from City	60,522,475	60,522,475	59,928,550	(593,925)
Total revenues	<u>184,638,745</u>	<u>184,638,745</u>	<u>180,993,934</u>	<u>(3,050,886)</u>
EXPENDITURES				
Current:				
Education	<u>184,633,745</u>	<u>186,714,763</u>	<u>179,208,996</u>	<u>(7,505,767)</u>
Total expenditures	<u>184,633,745</u>	<u>186,714,763</u>	<u>179,208,996</u>	<u>(7,505,767)</u>
Excess of revenues over (under) expenditures	<u>5,000</u>	<u>(2,076,018)</u>	<u>1,784,938</u>	<u>(3,860,956)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	260,000	260,000	260,000	-
Transfers out	<u>(265,000)</u>	<u>(265,000)</u>	<u>(265,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	-	(2,081,018)	1,779,938	<u>\$ 3,860,956</u>
Appropriations from fund balance		6,101,993		
Appropriations - encumbrances		<u>(4,020,975)</u>		
Budget - excess of revenues and appropriations from fund balance over (under) expenditures				
Fund balance - July 1	<u>-</u>	<u>-</u>	<u>3,300,959</u>	
Fund balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,080,897</u>	

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SUPPLEMENTARY INFORMATION



CITY OF HAMPTON, VIRGINIA
SCHEDULE OF THE TREASURER'S ACCOUNTABILITY
June 30, 2006

Assets held by the Treasurer:

Cash on hand	\$	8,050
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Cash in banks:

Old Point National Bank		5,565,002
Bank of America		2,464,140
Wachovia Bank		782,504

Investments:

State Local Government Investment Pool		30,000,000
Bankers Acceptance		607,927
Investment in mutual and money market funds		15,682,498
U.S. Government securities		14,895,905
Commercial paper		23,738,129
Certificates of deposit		8,000,000
Repurchase agreement		25,762,940

Total assets	\$	<u>127,507,095</u>
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Liabilities of the Treasurer:

Balance of City funds	\$	<u>127,507,095</u>
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Cash and cash equivalents

Primary Government per Exhibit A-1	\$	111,674,500
School Board per Exhibit A-11		2,681,820
Industrial Development Authority per Exhibit A-11		1,152,810

General Fund Investments per Exhibit A-3		10,402,851
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Restricted cash and investments - Enterprise Funds

(excluding HRHA) per Exhibit A-6

Cash and cash equivalents		4,655,505
Investments		27,062,044

Cash and cash equivalents - Agency Funds per Exhibit A-9		4,774,196
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Investments - component Unit - IDA		262,749
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Adjust investments in CAFR from fair value to cost		(59,815)
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Less:

Petty cash	\$	(39,026)
Cash held by HRHA per Exhibit A-6		(5,573,201)
Cash and investments held by trustees		<u>(29,487,338)</u>

(35,099,565)

Balance of City funds	\$	<u>127,507,095</u>
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**CITY OF HAMPTON, VIRGINIA
SCHEDULE OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT
INDUSTRIAL DEVELOPMENT AUTHORITY**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 6,138,161
Cash payments to suppliers for goods and services	(877,527)
Cash payments to employees for services	(4,400)
Other receipts (payments)	<u>5,622</u>
Net cash provided by (used in) operating activities	<u>5,261,856</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers in from primary government	<u>(3,341,753)</u>
Net cash provided by (used in) noncapital financing activities	<u>(3,341,753)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(1,214,127)
Principal paid on revenue bond maturities and long-term debt	(431,874)
Interest paid on revenue bonds and long-term debt	<u>(730,492)</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,376,493)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investment securities	18,778
Sale of investment securities	177,235
Interest and dividends on investments	84,837
Proceeds from collection of loans	432,485
Proceeds from collection of lease receivables	385,809
Interest received on loans	73,483
Interest received on lease receivables	723,100
Disbursements for loans	<u>(109,635)</u>
Net cash provided by (used in) investing activities	<u>1,786,092</u>

Net increase (decrease) in cash and cash equivalents (including restricted amounts)	1,329,702
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Cash and cash equivalents (including restricted), July 1	<u>3,856,269</u>
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Cash and cash equivalents (including restricted), June 30	<u>\$ 5,185,971</u>
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continued

Operating income (loss)	\$ 1,078,574
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization expense	109,954
Cost of land sold	1,901,326
Decrease (increase) in:	
Accounts receivable	53,770
Notes receivable	408,957
Due from primary government	206,692
Increase (decrease) in:	
Accounts payable	(65,165)
Due to primary government	(60,302)
Other liabilities	10,000
Deferred revenue	4,000
Notes receivable reported as nonoperating activities	(373,707)
Accounts payable reported as nonoperating activities	8,577
Nonoperating revenues reported as operating revenues	1,918,878
Due from/to other funds reported as nonoperating activities:	60,302
Total adjustments	4,183,282
Net cash provided by (used in) operating activities	\$ 5,261,856
Non-cash transactions affecting investing capital and related financing activities:	
Net increase (decrease) in fair value of investment:	\$ (226,917)
Total non-cash transactions	\$ (226,917)

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT
FEDERAL AREA DEVELOPMENT AUTHORITY
June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by (used in) operating activities	\$ -
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Net cash provided by (used in) noncapital financing activities	-
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Net cash provided by (used in) capital and related financing activities	-
---	---

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash provided by (used in) investing activities	-
---	---

Net increase (decrease) in cash and cash equivalents (including restricted amounts)	-
---	---

Cash and cash equivalents (including restricted), July 1	-
--	---

Cash and cash equivalents (including restricted), June 30	\$ -
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Operating income (loss)	\$ 357,993
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Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:

Decrease (increase) in:	
Due from primary government	(500,000)
Increase (decrease) in:	
Accounts payable	142,007
Total adjustments	(357,993)

Net cash provided by (used in) operating activities	\$ -
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Non-cash transactions affecting investing capital and related financing activities:

Net increase (decrease) in fair value of investments	\$ -
--	------

Total non-cash transactions	\$ -
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CITY OF HAMPTON, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD
SCHOOL OPERATING FUND
SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
June 30, 2006

	Appropriations			Expenditures	Variance Over (Under)
	Budget July 1, 2005	Net Changes	Final June 30, 2006		
EXPENDITURES					
Administration/attendance and health	\$ 9,760,405	\$ 124,280	\$ 9,884,685	\$ 9,563,784	\$ (320,901)
Instructional	146,488,603	1,255,987	147,744,590	141,932,477	(5,812,113)
Public transportation service	8,656,701	125,630	8,782,331	8,776,139	(6,192)
Operation and maintenance of school plant	<u>19,728,036</u>	<u>575,121</u>	<u>20,303,157</u>	<u>18,936,596</u>	<u>(1,366,561)</u>
Total expenditures	<u>184,633,745</u>	<u>2,081,018</u>	<u>186,714,763</u>	<u>179,208,996</u>	<u>(7,505,767)</u>
OPERATING TRANSFERS OUT					
To Student Activities Fund	<u>265,000</u>	<u>-</u>	<u>265,000</u>	<u>265,000</u>	<u>-</u>
Total transfers	<u>265,000</u>	<u>-</u>	<u>265,000</u>	<u>265,000</u>	<u>-</u>
Total expenditures and transfers	<u>\$ 184,898,745</u>	<u>\$ 2,081,018</u>	<u>\$ 186,979,763</u>	<u>\$ 179,473,996</u>	<u>\$ (7,505,767)</u>

CITY OF HAMPTON, VIRGINIA
DISCRETELY PRESENTED COMPONENT UNIT SCHOOL BOARD
SCHOOL OPERATING FUND
SCHEDULE OF REVENUE AND OTHER CREDITS - BUDGET AND ACTUAL
June 30, 2006

	Budget Revenues	Actual Revenues	Variance Over (Under)
State funds:			
Basic appropriation	\$ 61,913,413	\$ 60,148,530	\$ (1,764,883)
At risk payment	1,618,742	1,599,997	(18,745)
Remedial education	1,862,570	1,841,040	(21,530)
Reduced K-3 incentive	2,154,909	2,055,441	(99,468)
Teacher retirement	3,509,485	3,229,057	(280,428)
Social security benefits	3,784,109	3,460,011	(324,098)
Special education	10,797,557	10,844,915	47,358
Textbook payments	1,068,777	1,056,422	(12,355)
Remedial summer school	1,136,808	984,476	(152,332)
At risk 4 year old	1,886,054	1,886,054	-
Gifted	643,433	635,995	(7,438)
Foster home	413,376	278,903	(134,473)
Vocational education	1,504,146	1,438,259	(65,887)
VPSA education tech. grant	986,000	960,000	(26,000)
Virginia blind	12,363	15,401	3,038
Reading intervention	293,332	287,504	(5,828)
Enrollment loss	-	348,118	348,118
SOL Algebra Readiness	231,775	223,459	(8,316)
Salary Contingency	1,303,799	1,288,728	(15,071)
Lottery	4,152,516	4,032,211	(120,305)
Sales tax	23,513,728	22,528,099	(985,629)
Total state funds	122,786,892	119,142,620	(3,644,272)
Federal funds:			
Public law 874	922,460	753,718	(168,742)
Impact aid special education	89,918	98,642	8,724
Emergency impact aid-regular	-	225,720	225,720
Emergency impact aid-spec. ed.	-	16,707	16,707
U.S. Army - ROTC	75,884	80,313	4,429
U.S. Air Force - ROTC	46,094	50,576	4,482
U.S. Navy - ROTC	56,138	61,573	5,435
U.S. Marine Corps - ROTC	48,884	53,645	4,761
Total federal funds	1,239,378	1,340,894	101,516
Other funds:			
Fees from students	40,000	35,102	(4,898)
Tuition from regular day students	-	2,500	2,500
Miscellaneous Revenue	14,000	301,274	287,274
Interest	15,000	33,615	18,615
Other	21,000	209,379	188,379
	90,000	581,870	491,870
Total revenues	124,116,270	121,065,384	(3,050,886)
Other credits:			
Transfer from General Fund	60,522,475	59,928,550	(593,925)
Transfer from Cafeteria Fund	260,000	260,000	-
Total other credits	60,782,475	60,188,550	(593,925)
Total revenues and other credits	\$ 184,898,745	\$ 181,253,934	\$ (3,644,811)

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF ACCOUNTS RECEIVABLE BY SOURCE -
ALL GOVERNMENTAL FUND TYPES AND DISCRETELY
PRESENTED COMPONENT UNIT SCHOOL BOARD
June 30, 2006

General Fund:

From Commonwealth of Virginia:	
Sales and use taxes	\$ 1,137,083
Public assistance	2,401,113
Other	6,442,457
General property taxes (net of an allowance for uncollectible taxes of \$1,868,793)	5,766,044
Other	5,289,705
Total General Fund	<u>\$ 21,036,402</u>

Special Revenue Funds:**Federal Grants Fund:**

From the Commonwealth of Virginia	\$ 1,749,280
From the Federal Government	612,121
Total Federal Grants Fund	<u>2,361,401</u>

Community Development Fund:

From the Federal government:	361,804
Other	292
Total Community Development Fund	<u>362,096</u>

Economic Development Fund:

Other	1,473,095
Total Economic Development Fund	<u>1,473,095</u>

Excel Fund:

Franchise Cable Tax	<u>322,986</u>
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Enhanced Emergency Telephone Service:

E911 taxes	<u>175,834</u>
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Stormwater Management Fund

Stormwater fees	<u>167,510</u>
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Law Library Fund

Other	<u>334</u>
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Total Special Revenue Funds	<u>\$ 4,863,256</u>
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Permanent Fund:**Pearl I Young:**

Other	<u>\$ 61,244</u>
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Debt Service Fund:

From the Commonwealth of Virginia	\$ -
Other	1,371
Total Debt Service Fund	<u>\$ 1,371</u>

Capital Projects Fund:

From the Commonwealth of Virginia:	<u>\$ 1,529,742</u>
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Component Unit-School Board:

From the Commonwealth of Virginia:	
Special education	\$ 569,134
Grants	33,267
Project Graduation	8,745
State reimbursement:	
Sales taxes	1,902,310
From the Federal Government:	
Federal grants	1,575,097
ROTC	32,171
School lunch program	245,679
Emergency Impact Aid	106,797
Other	374,526
Total Component Unit-School Board	<u>\$ 4,847,726</u>

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Deferred Revenue June 30, 2005	Revenues (Note A)		Expenditures	Deferred Revenue June 30, 2006
			Federal	State/Local		
DEPARTMENT OF AGRICULTURE:						
FOOD STAMP CLUSTER:						
Pass-through payments:						
Department of Social Services:						
State Administrative Matching Grants for						
Food Stamp Program	10.561	\$ -	\$ 1,926,117	\$ 1,472,762	\$ 3,398,879	\$ -
Total Food Stamp Cluster		-	1,926,117	1,472,762	3,398,879	-
NUTRITION CLUSTER:						
Direct payments:						
Summer Food Service Program for Children	10.559		112,115		112,115	
Pass-through payments:						
Department of Education:						
National School Breakfast Program	10.553		1,232,917		1,232,917	
National School Lunch Program	10.556		3,544,450		3,544,450	
Department of Agriculture and Consumer Services:						
Donated Commodities	10.555	106,282	517,438	-	475,572	148,148
Total Nutrition Cluster		106,282	5,406,920	-	5,365,054	148,148
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:						
CDBG-ENTITLEMENT AND (HUD-ADMINISTERED)						
SMALL CITIES CLUSTER:						
Direct payments:						
Community Development Block Grant Program,						
Entitlement Grants (\$1,017,898 provided to subrecipient)	14.218		1,000,067	17,830	1,017,897	
Home Program (\$1,384,949 provided to subrecipient)	14.239	-	1,007,609	377,340	1,384,949	-
Total CDBG-Entitlement and Small Cities Cluster		-	2,007,676	395,170	2,402,846	-
DEPARTMENT OF JUSTICE:						
Direct payments:						
Bulletproof Vest Partnership Grant	16.607		1,691	1,690	3,381	
COPS in Schools	16.710		165,781	73,526	239,307	
State Criminal Alien Assistance Program	16.606		4,605		4,605	
Department of Criminal Justice Services:						
Juvenile Accountability Incentive Block Grant	16.523		18,463	14,022	32,485	
Detention Alternative Utilization	16.540		43,716		43,716	
Local Law Enforcement Block Grants Program	16.592			1,218	1,218	
Hampton Domestic Violence Community Unified						
Response Effort	16.588		101,710	27,874	129,584	
Edward Byrne/Community Oriented Justice Grant	16.579		55,483	18,494	73,977	
Pass-through payments:						
Virginia Department of Emergency Management						
Domestic Preparedness	16.592		100,750		100,750	
Justice Assistance Grant	16.592	-	73,355	-	73,355	-
Total Department of Justice		-	565,554	136,824	702,378	-

continued

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Schedule 7

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Deferred Revenue June 30, 2005	Revenues (Note A)		Expenditures	Deferred Revenue June 30, 2006
			Federal	State/Local		
FEDERAL EMERGENCY MANAGEMENT AGENCY:						
Pass-through payments:						
Department of Emergency Management:						
Hurricane Isabel Grant	83.520		80,798	26,933	107,731	
Local Emergency Management Program (LEMP)	83.552		43,566	43,548	87,114	
Citizen Corps Grant (CERT)	83.564	-	39,621	-	39,621	-
Total Federal Emergency Management Agency		-	163,985	70,481	234,466	-
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:						
Direct payments:						
NASA LaRC Visitor Ctr and Public Education Program	43.000		352,165		352,165	
Teachers Resource Center Program	43.000		44,489		44,489	
Education Resource Center and Coop Agreement	43.000	-	800,000	-	800,000	-
Total National Aeronautics and Space Administration		-	1,196,654	-	1,196,654	-
DEPARTMENT OF EDUCATION:						
Direct payments:						
School Assistance in Federally Affected Areas	84.041	1,012,377	852,360		1,012,377	852,360
Pass-through payments:						
Department of Mental Health, Mental Retardation, and Substance Abuse Services:						
Early Intervention Services for Infants and Toddlers with Disabilities and their Families	84.181		447,801	147,470	595,271	
Department of Education:						
Comprehensive School Reform (CSR)	84.332		336,078		336,078	
Adult Education State-Administered Program	84.002		208,107		208,107	
Title I:						
Educationally Deprived Children-LEA	84.010		6,031,941		6,031,941	
Reach ED for Homeless Child Project Hope (\$9,836 provided to subrecipient)	84.196		37,176		37,176	
Title II:						
Title II Training and Recruiting	84.367		1,003,881		1,003,881	
Title II Technology Ed	84.318		78,741		78,741	
Title III LEP, Immigrant	84.365		38,694		38,694	
Title V Innovative Programs '03-'04	84.298		165,062		165,062	
Title VI:						
Title VI 21st Century	84.287		653,180		653,180	
Title VIB	84.027		4,750,631		4,750,631	
Title VIB Preschool	84.173		202,769		202,769	
Title IVB--Sliver Grant	84.027		50,895		50,895	
Assistive Technology	84.027		78,122		78,122	
Vocational Education - Financial Assist. to Instruction	84.048		506,705		506,705	
High Schools That Work	84.048		5,123		5,123	
Drug-Free Schools and Communities	84.186		89,438		89,438	
Teaching American History	84.215		347,932		347,932	
Safe and Drug Free	84.186		65,026		65,026	
Learn & Serve-Mary Peake	94.004	-	15,008	-	15,008	-
Total Department of Education		1,012,377	15,964,670	147,470	16,272,157	852,360

continued

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Schedule 7

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Deferred Revenue June 30, 2005	Revenues (Note A)		Expenditures	Deferred Revenue June 30, 2006
			Federal	State/Local		
DEPARTMENT OF HEALTH AND HUMAN SERVICES:						
MEDICAID CLUSTER:						
Pass-through payments:						
Department of Social Services:						
Medical Assistance Program (Medicaid, Title XIX)	93.778	-	860,510	799,620	1,660,130	-
Total Medicaid Cluster		-	860,510	799,620	1,660,130	-
OTHER:						
Pass-through payments:						
Department of Education:						
Refugee School Impact	93.576		4,178		4,178	
Department of Social Services:						
Promoting Safe and Stable Families	93.556		54,757	18,252	73,009	
Temporary Assistance for Needy Families (TANF)	93.558		1,482,146	872,212	2,354,358	
Healthy Families Partnership - (TANF)	93.558		145,215		145,215	
Refugee & Entrant Assistance	93.566		2,430	149	2,579	
Low-Income Home Energy Assistance (LIHEAP)	93.568		38,475	9,469	47,944	
Child Care and Development Block Grant (CCDBG)	93.575		1,105,311		1,105,311	
Day Care Provider Training	93.596		14,638	14,638	29,276	
Child Care Development Fund	93.596		1,473,469	1,355,204	2,828,673	
Family Support	93.645		40,214	10,480	50,694	
VISSTA	93.658		280,793	130,382	411,175	
Foster Care - Title IV-E	93.658		1,524,737	1,130,776	2,655,513	
Adoption Assistance	93.659		410,406	432,322	842,728	
Social Services Block Grant (SSBG)	93.667		1,181,560	295,660	1,477,220	
Independent Living	93.674		21,037		21,037	
Admin. F/C Pass-Thru	93.687		93,407	93,407	186,814	
State Children's Insurance Program (CHIP)	93.767	-	27,392	27,391	54,783	-
Total Department of Health and Human Services (Other)		-	7,900,165	4,390,344	12,290,507	-
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:						
FOSTER GRANDPARENT, SENIOR COMPANION CLUSTER:						
Direct payments:						
Foster Grandparent Program	94.011	-	346,661	76,850	423,511	-
Total Foster Grandparent, Senior Companion Cluster		-	346,661	76,850	423,511	-
ENVIRONMENTAL PROTECTION AGENCY:						
Direct payments:						
Brownfields Assessment	66.818	-	29,222	-	29,222	-
Total Environmental Protection Agency:		-	29,222	-	29,222	-

continued

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Schedule 7

Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number	Federal Catalogue Number	Deferred Revenue June 30, 2005	Revenues (Note A)		Expenditures	Deferred Revenue June 30, 2006
			Federal	State/Local		
DEPARTMENT OF HOMELAND SECURITY:						
Pass-through payments:						
Virginia Department of Emergency Management:						
Buffer Zone Protection Program	97.078		43,140		43,140	
Homeland Security	16.592		13,895		13,895	
Home Elevation Program	83.580		245,405	77,646	323,052	
State Homeland Security	16.592	-	218,411	175,294	393,705	-
Total Homeland Security:		-	520,851	252,940	773,792	-
DEPARTMENT OF DEFENSE:						
Direct Payments:						
Office of Economic Adjustment:						
Community Economic Adjustment Planning Assist.	12.607	-	105,871	59,853	165,724	-
Total Department of Defense		-	105,871	59,853	165,724	-
OTHER FEDERAL ASSISTANCE AND REIMBURSEMENTS:						
Proceeds of seized assets	16.000		16,905		16,905	
U.S. Army - ROTC	12.000		80,313		80,313	
U.S. Air Force - ROTC	12.000		50,576		50,576	
U.S. Navy - ROTC	12.000		61,573		61,573	
U.S. Marine Corps - ROTC	12.000		53,645		53,645	
Emergency Impact Aid	84.938		242,427		242,427	
Emergency Response Plans	84.184	-	54,070	-	54,070	-
Total Other Federal Assistance and Reimbursements		-	559,509	-	559,509	-
Grand Total All Federally Assisted Programs and Grants		<u>\$1,118,659</u>	<u>\$ 37,554,365</u>	<u>\$ 7,802,314</u>	<u>\$ 45,474,830</u>	<u>\$1,000,508</u>

Notes:

(A) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Hampton, Virginia. The City of Hampton single audit reporting entity is defined in Note 1, Reporting Entity, to the City's general purpose financial statements.

The Schedule of Expenditures of Federal Awards does not include federal funding of \$268,000 in the General Fund. This amount represents indirect costs from other federally assisted programs administered by the City and is included in the federal revenues of the applicable program.

(B) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting.

(C) Blended Unit Financial Statements

The Hampton Redevelopment Housing Authority (HRHA), a blended component unit, was audited by other auditors for its year ended December 31, 2005.

The auditor's report dated July 27, 2006 included reports on compliance and internal controls and the Schedule of Federal Awards.

A copy of the report can be obtained from:

Board of Commissioners
Hampton Redevelopment and Housing Authority
22 Lincoln Street
Hampton, Virginia 23669

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
MUSEUM REVENUE BONDS
June 30, 2006

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2007	\$ 1,185,000	\$ 403,438	\$ 1,588,438
2008	1,210,000	379,737	1,589,737
2009	1,240,000	351,000	1,591,000
2010	1,290,000	301,400	1,591,400
2011	1,330,000	259,475	1,589,475
2012	1,370,000	216,250	1,586,250
2013	1,440,000	147,750	1,587,750
2014	<u>1,515,000</u>	<u>75,750</u>	<u>1,590,750</u>
	<u>\$ 10,580,000</u>	<u>\$ 2,134,800</u>	<u>\$ 12,714,800</u>

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
THE HAMPTONS REVENUE BONDS
June 30, 2006

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2007	\$ 230,000	\$ 102,900	\$ 332,900
2008	240,000	88,800	328,800
2009	250,000	74,100	324,100
2010	260,000	58,800	318,800
2011	270,000	42,900	312,900
2012	285,000	26,250	311,250
2013	<u>295,000</u>	<u>8,850</u>	<u>303,850</u>
	<u>\$ 1,830,000</u>	<u>\$ 402,600</u>	<u>\$ 2,232,600</u>

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
CONVENTION CENTER REVENUE BONDS
June 30, 2006

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service
2007	\$ -	\$ 5,360,431	\$ 5,360,431
2008		5,360,431	5,360,431
2009		5,360,431	5,360,431
2010		5,360,431	5,360,431
2011	2,155,000	5,360,432	7,515,432
2012	2,265,000	5,252,682	7,517,682
2013	2,340,000	5,173,406	7,513,406
2014	2,425,000	5,088,581	7,513,581
2015	2,555,000	4,961,269	7,516,269
2016	2,690,000	4,827,131	7,517,131
2017	2,830,000	4,685,907	7,515,907
2018	2,980,000	4,537,331	7,517,331
2019	3,505,000	4,380,881	7,885,881
2020	3,685,000	4,196,869	7,881,869
2021	3,920,000	4,003,406	7,923,406
2022	4,110,000	3,797,606	7,907,606
2023	4,310,000	3,581,831	7,891,831
2024	4,160,000	3,355,556	7,515,556
2025	4,375,000	3,142,356	7,517,356
2026	4,595,000	2,918,138	7,513,138
2027	4,835,000	2,682,644	7,517,644
2028	5,080,000	2,434,850	7,514,850
2029	5,340,000	2,174,500	7,514,500
2030	5,610,000	1,907,500	7,517,500
2031	5,890,000	1,627,000	7,517,000
2032	6,185,000	1,332,500	7,517,500
2033	6,490,000	1,023,250	7,513,250
2034	6,815,000	698,750	7,513,750
2035	7,160,000	358,000	7,518,000
	<u>\$ 106,305,000</u>	<u>\$ 104,944,100</u>	<u>\$ 211,249,100</u>

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
INDUSTRIAL DEVELOPMENT AUTHORITY REVENUE BONDS
June 30, 2006

Fiscal Year Ending June 30,	1997		2002		Interest	Total Debt Service
	Taxable Principal	Tax-Exempt Principal	Tax-Exempt Principal			
2007	\$ 11,413	\$ 57,636	\$ 391,967	\$ 701,349	\$ 1,162,365	
2008	12,331	62,262	416,524	671,248	1,162,365	
2009	13,412	67,730	442,620	638,602	1,162,364	
2010	14,541	73,433	470,351	604,040	1,162,365	
2011	15,765	79,616	499,819	567,164	1,162,364	
2012	17,064	86,161	531,134	528,007	1,162,366	
2013	18,529	93,573	564,410	485,852	1,162,364	
2014	20,090	101,452	599,772	441,051	1,162,365	
2015	21,781	109,994	637,348	393,242	1,162,365	
2016	23,604	119,190	677,279	342,291	1,162,364	
2017	25,602	129,290	719,712	287,761	1,162,365	
2018	13,596	116,017	764,803	229,950	1,124,366	
2019			812,720	177,340	990,060	
2020			863,638	126,421	990,059	
2021			917,746	72,313	990,059	
2022			352,542	14,815	367,357	
	<u>\$ 207,728</u>	<u>\$ 1,096,354</u>	<u>\$ 9,662,385</u>	<u>\$ 6,281,446</u>	<u>\$ 17,247,913</u>	

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
GENERAL OBLIGATION BONDS
June 30, 2006

Serial Bonds:

Fiscal Year Ending June 30,	Principal	Interest	Sinking Fund (1)		Total Debt Service
			Required Payments	Less Investment Earnings	
2007	\$ 23,185,000	\$ 8,913,002	\$ 2,120,000	\$ 10,309,944	\$ 23,908,058
2008	11,360,000	7,786,027	2,260,000	271,956	21,134,071
2009	12,070,000	7,266,601	2,410,000	421,681	21,324,920
2010	12,405,000	6,723,537	2,570,000	11,926,344	9,772,193
2011	10,310,000	6,199,166			16,509,166
2012	10,780,000	5,728,948			16,508,948
2013	11,240,000	5,267,834			16,507,834
2014	12,055,000	4,742,578			16,797,578
2015	12,110,000	4,189,150			16,299,150
2016	8,305,000	3,585,676			11,890,676
2017	8,700,000	3,190,106			11,890,106
2018	8,505,000	2,785,906			11,290,906
2019	10,190,000	2,342,369			12,532,369
2020	9,340,000	1,879,106			11,219,106
2021	5,955,000	1,444,175			7,399,175
2022	6,260,000	1,146,425			7,406,425
2023	4,205,000	833,425			5,038,425
2024	4,395,000	638,944			5,033,944
2025	4,600,000	435,675			5,035,675
2026	4,820,000	222,925			5,042,925
	<u>\$ 190,790,000</u>	<u>\$ 75,321,575</u>	<u>\$ 9,360,000</u>	<u>\$ 22,929,925</u>	<u>\$ 252,541,650</u>

CITY OF HAMPTON, VIRGINIA
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2006

Assessed value:

Real estate	\$ 8,165,512,531	
Public service corporations - real estate	116,578,783	
Newport News Waterworks	<u>63,399,900</u>	<u>\$ 8,345,491,214</u>

Debt limit at 10% of assessed value	<u>834,549,121</u>
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General obligation bonded debt:

General obligation tax-exempt bonds	190,790,000	
General obligation taxable bonds	7,255,000	
Notes payable	<u>1,191,524</u>	199,236,524

Long term notes payable:

State literary loan	<u>1,140,377</u>
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Total long-term debt	<u>200,376,901</u>
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Legal debt margin	<u><u>\$ 634,172,220</u></u>
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Note:

Virginia state statute limits bond issuing authority of Virginia cities to 10% of the assessed real estate value. The above calculation includes all debt secured by the full faith and credit of the City. The calculation excludes installment purchase contracts, accrued sick, annual leave and net pension obligation totaling \$9,854,351 at June 30, 2006.

There are no overlapping or underlying tax jurisdictions.

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STATISTICS



CITY OF HAMPTON, VIRGINIA

Table I

Net Assets by Component

Last Five Fiscal Years ¹

(accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Years				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	\$ (4,920)	\$ (23,248)	\$ (7,827)	\$ 9,067	\$ 503,004 ²
Restricted	31,321	52,794	43,978	24,780	18,163
Unrestricted	41,760	43,730	51,040	71,580	96,304
Total governmental activities net assets	<u>\$ 68,161</u>	<u>\$ 73,276</u>	<u>\$ 87,191</u>	<u>\$ 105,427</u>	<u>\$ 617,471</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 79,729	\$ 87,471	\$ 93,712	\$ 77,764	\$ 76,141
Restricted	12,430	17,148	15,760	33,771	31,572
Unrestricted	9,033	7,894	14,308	18,922	23,828
Total business-type activities net assets	<u>\$ 101,192</u>	<u>\$ 112,513</u>	<u>\$ 123,780</u>	<u>\$ 130,457</u>	<u>\$ 131,541</u>
Primary government					
Invested in capital assets, net of related debt	\$ 74,809	\$ 64,223	\$ 85,885	\$ 86,831	\$ 579,145 ²
Restricted	43,751	69,942	59,738	58,551	49,735
Unrestricted	50,793	51,624	65,348	90,502	120,132
Total primary government net assets	<u>\$ 169,353</u>	<u>\$ 185,789</u>	<u>\$ 210,971</u>	<u>\$ 235,884</u>	<u>\$ 749,012</u>

Notes:

¹ The City of Hampton began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

² The significant increase in invested in capital assets, net of related debt for fiscal year 2006 is due to the capitalization of infrastructure prior to fiscal year 2002 under the transition provisions of GASB Statement 34.

CITY OF HAMPTON, VIRGINIA
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Table II

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	\$ 67,760	\$ 71,673	\$ 96,371	\$ 87,744	\$ 98,704
Public safety	33,519	35,779	39,821	41,700	43,839
Highways and streets	2,319	2,170	2,302	2,665	9,943 ¹
Sanitation	2,023	1,861	2,370	2,589	2,346
Health	3,020	2,843	3,072	2,929	2,900
Human Services	21,439	23,313	24,905	25,438	28,578
Culture and recreation	10,781	11,280	13,104	16,257	15,820
Education (payment to school district)	51,905	52,588	54,321	56,362	59,929
Education and educational services	3,488	3,339	3,473	3,541	4,464
Capital improvements	8,923	10,358	7,976	11,232	- ²
Interest on long-term debt	8,172	9,817	7,911	7,616	9,723
Total governmental activities expenses	<u>213,349</u>	<u>225,021</u>	<u>255,626</u>	<u>258,073</u>	<u>276,246</u>
Business-type activities					
Culture and recreation	16,501	19,131	17,894	24,115	30,344
Sanitation	12,817	12,962	13,499	13,426	14,415
Housing	20,429	20,483	22,149	24,465	23,433
Total business-type activities expenses	<u>49,747</u>	<u>52,576</u>	<u>53,542</u>	<u>62,006</u>	<u>68,192</u>
Total primary government expenses	<u>\$ 263,096</u>	<u>\$ 277,597</u>	<u>\$ 309,168</u>	<u>\$ 320,079</u>	<u>\$ 344,438</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 1,622	\$ 2,204	\$ 2,414	\$ 3,737	6,250
Public safety	1,981	1,608	1,872	3,157	2,361
Sanitation	9,344	9,635	10,015	10,530	9,459
Other activities	3,018	3,405	4,413	5,646	8,328
Operating grants and contributions	49,001	52,186	76,555	57,388	63,468
Capital grants and contributions	24	-	-	9,355	12,590
Total governmental activities program revenues	<u>64,990</u>	<u>69,038</u>	<u>95,269</u>	<u>89,813</u>	<u>102,456</u>
Business-type activities					
Charges for services:					
Culture and recreation	11,862	14,289	11,923	16,445	14,059
Sanitation	10,870	10,819	13,728	15,657	15,719
Housing	2,156	1,880	1,934	1,921	1,975
Operating grants and contributions	14,376	16,890	19,109	21,136	22,990
Capital grants and contributions	2,739	5,558	2,068	2,604	2,572
Total business-type activities program revenues	<u>42,003</u>	<u>49,436</u>	<u>48,762</u>	<u>57,763</u>	<u>57,315</u>
Total primary government program revenues	<u>\$ 106,993</u>	<u>\$ 118,473</u>	<u>\$ 144,031</u>	<u>\$ 147,576</u>	<u>\$ 159,771</u>
Net (expenses)/revenue					
Governmental activities	\$ (148,359)	\$ (155,983)	\$ (160,357)	\$ (168,260)	\$ (173,790)
Business-type activities	<u>(7,744)</u>	<u>(3,141)</u>	<u>(4,780)</u>	<u>(4,243)</u>	<u>(10,877)</u>
Total primary government net (expenses)/revenue	<u>\$ (156,103)</u>	<u>\$ (159,124)</u>	<u>\$ (165,137)</u>	<u>\$ (172,503)</u>	<u>\$ (184,667)</u>

General Revenues and Other Changes in Net Assets
Table II

Governmental activities:

Taxes

Property taxes	\$ 105,009	\$ 110,700	\$ 116,385	\$ 123,937	138,079
Sales Taxes	11,728	11,383	12,218	12,885	13,415
Lodging, meal and amusement taxes	14,949	15,280	16,373	17,351	17,547
Motor vehicle taxes	2,825	3,142	3,171	3,232	3,290
Alcoholic beverage taxes	604	341	362	176	176
Business license taxes	9,465	9,572	10,435	11,019	11,750
Utility taxes	10,155	9,940	11,652	10,957	11,637
Tobacco taxes	2,456	2,952	4,567	4,084	3,889
Emergency 911 telephone taxes	2,193	2,132	2,160	2,077	2,034
Recordation taxes	638	782	930	1,640	2,656
Bank stock taxes	356	299	304	306	358
Pari-mutual license taxes	110	115	120	123	113
Short-term rental taxes	135	91	97	109	126
Franchise license taxes	1,235	1,203	1,230	1,260	1,315
Mobile home titling tax	23	12	18	21	18
Investment earning	3,722	2,827	1,102	2,286	6,694
Miscellaneous	(670)	(1,593)	261	2,009	661
Transfers	(9,567)	(8,897)	(7,214)	(6,820)	(8,378)
Special Item - gain (loss) on disposal on assets	(788)	(1,925)	(608)	(157)	0
Special Item - donated property	786	2,775	710	-	-
Total governmental activities	<u>155,364</u>	<u>161,131</u>	<u>174,273</u>	<u>186,495</u>	<u>205,380</u>

Business-type activities:

Investment earning	635	553	383	694	1,783
Gain(loss) on disposal of assets	(87)	(684)	1,248	696	0
Miscellaneous	5,309	5,696	7,201	2,711	1,800
Transfers	<u>9,567</u>	<u>8,897</u>	<u>7,214</u>	<u>6,820</u>	<u>8,378</u>
Total business-type activities	<u>15,424</u>	<u>14,462</u>	<u>16,046</u>	<u>10,921</u>	<u>11,961</u>
Total primary government	<u>\$ 170,788</u>	<u>\$ 175,593</u>	<u>\$ 190,319</u>	<u>\$ 197,416</u>	<u>\$ 217,341</u>

Changes in Net Assets

Governmental activities	\$ 7,005	\$ 5,148	\$ 13,916	\$ 18,235	\$ 31,590
Business-type activities	<u>7,680</u>	<u>11,322</u>	<u>11,266</u>	<u>6,678</u>	<u>1,084</u>
Total primary government	<u>\$ 14,685</u>	<u>\$ 16,469</u>	<u>\$ 25,182</u>	<u>\$ 24,913</u>	<u>\$ 32,674</u>

Notes:

¹ The City of Hampton began to report accrual information when it implemented GASB Statement 34 in fiscal year 2002.

² In Fiscal Year 2006, the City chose to classify capital improvement by function.

CITY OF HAMPTON, VIRGINIA
Fund Balance of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Table III

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 1,813	\$ 2,209	\$ 2,041	\$ 1,242	\$ 1,161	\$ 1,502	\$ 1,248	\$ 1,819	\$ 1,563	\$ 1,235
Unreserved	<u>32,338</u>	<u>31,595</u>	<u>25,735</u>	<u>23,881</u>	<u>27,283</u>	<u>32,122</u>	<u>37,504</u>	<u>42,706</u>	<u>53,175</u>	<u>68,394</u>
Total general fund	<u>\$ 34,151</u>	<u>\$ 33,804</u>	<u>\$ 27,776</u>	<u>\$ 25,123</u>	<u>\$ 28,444</u>	<u>\$ 33,624</u>	<u>\$ 38,752</u>	<u>\$ 44,525</u>	<u>\$ 54,738</u>	<u>\$ 69,629</u>
 All other governmental funds										
Reserved	\$ 16,594	\$ 23,307	\$ 20,438	\$ 11,741	\$ 12,071	\$ 12,443	\$ 12,811	\$ 12,199	\$ 11,826	\$ 11,773
Unreserved, reported in:										
Special revenue funds	8,444	7,203	8,159	8,095	7,474	9,781	11,723	10,226	9,440	13,888
Capital projects funds	26,411	15,921	11,024	45,104	36,793	41,154	32,367	22,245	76,004	61,220
Permanent funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58</u>	<u>59</u>	<u>59</u>	<u>60</u>	<u>61</u>
Total all other governmental funds	<u>\$ 51,449</u>	<u>\$ 46,431</u>	<u>\$ 39,621</u>	<u>\$ 64,940</u>	<u>\$ 56,338</u>	<u>\$ 63,436</u>	<u>\$ 56,960</u>	<u>\$ 44,729</u>	<u>\$ 97,330</u>	<u>\$ 86,942</u>

Note: For fiscal years 1997-2001, the Permanent fund was reported as a part of the Fiduciary Fund Statements.

CITY OF HAMPTON, VIRGINIA
Changes in Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Table IV

	Fiscal Years				
	2002	2003	2004	2005	2006
Revenues					
Taxes (See Table V)	\$ 157,587	\$ 163,882	\$ 175,923	\$ 185,090	\$ 206,706
Intergovernmental revenues	41,167	43,463	67,984	58,021	56,585
Licenses and permits	1,464	1,448	1,662	1,651	1,686
Fines and forfeitures	1,124	1,300	1,638	2,211	2,088
Revenue from use of money and property	3,971	3,282	1,640	4,037	7,975
Charges for services	5,586	5,916	6,776	9,192	9,907
Miscellaneous	4,918	6,973	6,033	6,494	10,799
Recovered costs	8,288	9,618	9,484	9,406	9,834
Total revenues	<u>224,105</u>	<u>235,882</u>	<u>271,140</u>	<u>276,102</u>	<u>305,580</u>
Expenditures					
General government	59,749	62,179	88,538	75,711	82,671
Public safety	34,439	35,203	39,186	40,951	43,709
Highways and streets	2,289	2,157	2,211	2,454	2,587
Sanitation	1,996	1,861	2,370	2,589	2,346
Health	2,993	2,830	3,060	2,904	2,874
Social services	21,351	23,213	24,836	25,390	28,577
Culture and recreation	10,199	11,214	12,999	14,606	14,742
Education (payment to school district)	58,662	59,768	57,752	61,085	59,928
Education	2,139	2,065	2,147	2,252	2,295
Capital improvements	24,289	16,775	18,058	26,195	31,332
Debt service					
Principal	16,307	10,892	11,606	19,393	11,938
Interest and fiscal charges	8,028	8,873	8,255	7,545	9,701
Total expenditures	<u>242,441</u>	<u>237,030</u>	<u>271,018</u>	<u>281,075</u>	<u>292,700</u>
Excess of revenues over (under) expenditures	<u>(18,336)</u>	<u>(1,148)</u>	<u>122</u>	<u>(4,973)</u>	<u>12,880</u>
Other financing sources (uses)					
Debt issuance and capital leases	37,143	7,503	-	73,895	350
Proceeds from refunding bonds issued	-	19,319	-	30,367	-
Payment to refunded bond escrow agent	-	(19,218)	-	(30,236)	(350)
Payment to escrow agent	-	-	-	-	-
Transfers in	30,159	29,370	32,285	27,269	30,965
Transfers in from component units	1,094	91	634	580	
Transfer out	<u>(38,378)</u>	<u>(37,266)</u>	<u>(39,499)</u>	<u>(34,088)</u>	<u>(39,343)</u>
Total other financing source (uses)	<u>30,018</u>	<u>(201)</u>	<u>(6,580)</u>	<u>67,787</u>	<u>(8,378)</u>
Net change in fund balances	<u>\$ 11,682</u>	<u>\$ (1,349)</u>	<u>\$ (6,458)</u>	<u>\$ 62,814</u>	<u>\$ 4,502</u>
Debt service as a percentage of noncapital expenditures	14.9%	12.0%	9.8%	13.2%	7.9%

CITY OF HAMPTON, VIRGINIA
GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Table V

Fiscal Year	General Property Taxes	Business Licenses	Sales Taxes	Utility Taxes	Tobacco Taxes	Meal Tax	Other Taxes*	Total
1997	\$ 84,138	\$ 6,895	\$ 11,478	\$ 8,464	\$ 2,326	\$ 5,993	\$ 5,476	\$ 124,770
1998	86,457	7,659	11,906	8,661	2,610	6,409	5,614	129,316
1999	88,117	7,785	12,145	8,857	2,413	6,739	6,372	132,428
2000	91,936	8,122	12,099	9,027	2,382	6,832	6,667	137,065
2001	96,755	8,873	11,422	9,897	2,772	8,575	7,611	145,905
2002	105,009	9,465	11,728	10,156	2,456	10,325	8,448	157,587
2003	110,700	9,572	11,383	9,941	2,952	10,470	8,865	163,882
2004	116,385	10,435	12,218	11,652	4,567	11,325	9,342	175,923
2005	123,709	11,019	12,885	10,957	4,084	12,449	9,987	185,090
2006	139,280	11,751	13,415	11,637	3,889	13,426	13,308	206,706

Notes:

¹ The City was able to lower the real estate tax rate from \$1.25 per \$100 assessed value in 2005 to \$1.20 per \$100 assessed value in 2006 because of the significant growth in assessments.

² Meal and lodging tax rates were increased from 4.5% and 5.5% respectively, in fiscal year 2002 to 6.5% and 7.5%, respectively, in fiscal year 2006 as a dedicated reserve and revenue for the Convention Center operations.

* Other taxes includes: short-term rental, recordation, lodging, amusement, motor vehicle, bank stock, licenses tax-pari-mutual and franchise taxes.

CITY OF HAMPTON, VIRGINIA
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years Ended June 30, 2006
(In Thousands)

Table VI

Real Estate						Total	
Assessed Value						Assessed	
Fiscal Year	Citizens' Property	Public Service (1)	Newport News Waterworks	Total	Estimated Actual Value	as a Percent of Estimated Actual Value (2)	Total Direct Tax Rate
1997	\$ 4,598,827	\$ 171,377	\$ 39,626	\$ 4,809,830	\$ 4,953,480	97	1.23
1998	4,749,616	168,661	43,563	4,961,840	5,057,941	98	1.25
1999	4,840,618	184,456	48,954	5,074,028	5,290,957	96	1.25
2000	4,984,196	180,111	49,852	5,214,159	5,471,310	96	1.25
2001	5,157,140	198,396	51,822	5,407,358	5,740,295	95	1.25
2002	5,361,262	195,595	53,494	5,610,351	6,144,963	92	1.27
2003	5,638,936	184,567	57,472	5,880,975	6,563,588	90	1.27
2004	6,081,667	190,105	58,621	6,330,393	7,360,922	87	1.27
2005	6,776,586	180,476	60,381	7,017,443	8,771,803	80	1.25
2006	8,165,513	116,579	63,400	8,345,492	10,431,864	80	1.20

Notes:

- (1) Public service assessed values are furnished by the State Corporation Commission of Virginia with no indication of assessment rate or actual value. The state mandated conversion of personal property to real estate for taxing purposes whereby personal property values are converted at 5% a year over a 20-year period.
- (2) The state requires all real estate to be assessed at 100% of its appraised value. There is no state statute or city charter limitation on the tax rate. The latest State Department of Taxation comparison of sales to appraisal indicates a true rate of 79.7%.

CITY OF HAMPTON, VIRGINIA
Principal Property Tax Payers
Current Year and Nine Years Ago
(amounts expressed in thousands)

Table VII

Taxpayer	2006			1997		
	Total	Rank	Percentage of	Total	Rank	Percentage of
	Assessed		Total Taxable	Assessed		Total Taxable
	Value		Assessed Value	Value		Assessed Value
Hampton Mall Association	\$ 55,659	1	0.7%	\$ 49,237	1	1.0%
John Q Hammons	40,682	2	0.5%	-	n/a	
Hampton Center LLC	34,757	3	0.4%	-	n/a	
Hampton Training School	26,724	4	0.3%	-	n/a	
Coliseum Crossing	25,691	5	0.3%	16,375	5	0.3%
BIR Lakeridge LLC	25,270	6	0.3%	-	n/a	
Crit-VA III LLC	24,089	7	0.3%	-	n/a	
Riverdale Apartments LLC	23,741	8	0.3%	-	n/a	
Mid America Apartments LP	23,537	9	0.3%	-	n/a	
Addison at Hampton LLC	21,913	10	0.3%	-	n/a	
HNN Associates	-			15,856	6	0.3%
Riverdale Plaza Shopping Center	-			18,826	3	0.4%
Gateway 2000	-			23,257	2	0.5%
Old Dominion Real Estate	-			16,930	4	0.4%
Olde Hampton Hotel Associates	-			13,510	7	0.3%
Mercury Mall Associates	-			13,504	8	0.3%
Armada/Hoffler-Hpt Centre Association	-			13,498	9	0.3%
Newmarket North Associates LTD	-			12,806	10	0.3%
	<u>\$ 302,063</u>		<u>3.7%</u>	<u>\$ 193,799</u>		<u>4.1%</u>

Source: Assessor's Office

CITY OF HAMPTON, VIRGINIA
Real Estate Tax Levies and Collections
Last Four Fiscal Years ⁽¹⁾
(amounts expressed in thousands)

Table VIII

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount ⁽²⁾	Percentage of Levy		Amount	Percentage of Levy
2003	72,358	70,753	97.78%	3,017	73,770	101.95%
2004	77,980	76,173	97.68%	2,979	79,152	101.50%
2005	87,718	84,572	96.41%	1,708	86,280	98.36%
2006	100,146	97,737	97.59%	1,590	99,327	99.18%

Notes:

(1) Based on the availability of data and the implementation of GASB Statement 44, four fiscal years are presented.

(2) Includes penalties: A 10% penalty is added after December 5th and June 5th.

There are no overlapping or underlying tax jurisdictions.

CITY OF HAMPTON, VIRGINIA
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Table IX

General Bonded Debt								
Fiscal Year	General Obligation Bonds ³	Notes Payable	State Literary Loans	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita ²	Capital Leases	
1997	\$ 126,557	\$ 3,514	\$ 2,833	\$ 132,904	2.68%	\$ 97.37	\$ 1,772	
1998	120,230	3,137	2,645	126,012	2.49	92.32	2,021	
1999	116,176	2,761	2,457	121,394	2.29	88.93	1,561	
2000	155,329	5,412	2,269	163,010	2.98	119.42	1,163	
2001	146,851	5,036	2,081	153,968	2.68	105.14	886	
2002	168,057	3,007	1,893	172,957	2.81	117.42	2,234	
2003	165,124	4,054	1,704	170,882	2.60	117.69	2,109	
2004	154,079	1,988	1,517	157,584	2.14	109.13	1,973	
2005	209,490	1,590	1,328	212,408	2.42	148.75	3,831	
2006	198,045	1,192	1,140	200,377	1.92	137.72	1,295	

Business-Type Activities								
Fiscal Year	Revenue Bonds	Notes Payable	Capital Leases	HRHA Bonds	HRHA Notes Payable	Total Primary Government	Percentage of Personal Income	Per Capita ²
1997	\$ 22,645	\$ -	\$ 2,125	\$ 4,045	\$ 22,672	\$ 186,163	7.06%	\$ 135.29
1998	21,800	-	2,021	3,835	20,188	175,877	6.45	128.85
1999	20,900	-	1,844	3,370	19,959	169,028	5.13	123.83
2000	19,980	-	1,793	-	5,168	191,114	5.45	140.01
2001	18,945	7,585	1,729	-	5,127	188,240	5.11	128.55
2002	17,855	7,585	1,703	-	3,113	205,447	5.32	139.47
2003	123,025	-	1,747	-	1,160	298,923	7.44	205.87
2004	121,435	-	1,611	-	10,810	293,413	6.89	203.19
2005	120,060	-	1,497	-	1,062	338,858	N/A	237.30
2006	118,715	-	1,379	-	971	322,737	N/A	221.81

Notes:

¹ Details regarding the City's outstanding debt can be found in the notes to the financial statements.

² See Table XII for the personal income and population data.

³ General Obligation Bonds amount excludes the unamortized premiums and deferred amount for advance refunding.

CITY OF HAMPTON, VIRGINIA
Legal Debt Margin Information
Last Five Fiscal Years
(amounts expressed in thousands)

Table X

	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 480,983	\$ 496,184	\$ 507,403	\$ 521,416	\$ 540,736	\$ 561,035	\$ 588,097	\$ 633,039	\$ 701,744	\$ 834,549
Total net debt applicable to limit	<u>132,904</u>	<u>126,012</u>	<u>121,394</u>	<u>163,010</u>	<u>153,968</u>	<u>172,957</u>	<u>170,882</u>	<u>157,584</u>	<u>212,408</u>	<u>200,377</u>
Legal debt margin	<u>\$ 348,079</u>	<u>\$ 370,172</u>	<u>\$ 386,009</u>	<u>\$ 358,406</u>	<u>\$ 386,768</u>	<u>\$ 388,078</u>	<u>\$ 417,215</u>	<u>\$ 475,456</u>	<u>\$ 489,336</u>	<u>\$ 634,172</u>
Total net debt applicable to the limit as a percentage of debt limit	27.63%	25.40%	23.92%	31.26%	28.47%	30.83%	29.06%	24.89%	30.27%	24.01%

Legal Debt Margin Calculation for Fiscal Year 2006

	2006
Assessed value	\$ 8,345,491
Debt limit (10% of total assessed value)	834,549
Debt applicable to limit:	
General obligation debt	200,377
Less: Amount set aside for repayment of general obligation debt	<u>-</u>
Total net debt applicable to limit	<u>200,377</u>
Legal debt margin	<u>\$ 634,172</u>

Note:

Virginia state statute limits bond issuing authority of Virginia cities to 10% of the assessed real estate value.
The above calculation includes all debt secured by the full faith and credit of the City. The calculation excludes installment purchase contracts, accrued sick, annual leave and net pension obligation totaling \$9,854,351 at June 30, 2006.

There are no overlapping or underlying tax jurisdictions.

CITY OF HAMPTON, VIRGINIA
Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

Table XI

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue	Debt Service Requirements (3)			Coverage
			Available for Debt Service	Principal	Interest	Total	
The Hamptons Revenue Bonds							
1997	\$ 1,249,712	\$ 991,787	\$ 257,925	\$ 110,000	\$ 255,400	\$ 365,400	0.71
1998	1,213,681	976,665	237,016	120,000	247,255	367,255	0.65
1999	1,350,931	828,975	521,956	130,000	239,890	369,890	1.41
2000	1,327,095	843,848	483,247	140,000	134,572	274,572	1.76
2001	1,335,047	892,182	442,865	175,000	174,475	349,475	1.27
2002	1,564,209	946,828	617,381	185,000	163,625	348,625	1.77
2003	1,294,155	897,892	396,263	195,000	152,915	347,915	1.14
2004	1,291,201	994,971	296,230	200,000	141,300	341,300	0.87
2005	1,394,635	1,011,878	382,757	210,000	129,000	339,000	1.12
2006	1,566,981	1,073,524	493,457	215,000	116,250	331,250	1.49
Museum Revenue Bonds							
1997	\$ 4,898,255	\$ 3,117,705	\$ 1,780,550	\$ 685,000	\$ 1,052,507	\$ 1,737,507	1.02
1998	5,679,859	3,507,943	2,171,916	725,000	1,010,920	1,735,920	1.25
1999	6,110,251	3,827,447	2,282,804	770,000	965,622	1,735,622	1.32
2000	5,374,436	4,152,478	1,221,958	825,000	916,927	1,741,927	0.70
2001	6,190,307	4,366,422	1,823,855	860,000	877,688	1,737,688	1.05
2002	7,108,207	4,269,874	2,838,333	905,000	838,987	1,743,987	1.63
2003	9,335,521	4,645,266	4,690,255	940,000	798,263	1,738,263	2.70
2004	10,923,802	5,136,391	5,787,411	990,000	798,263	1,788,263	3.24
2005	6,767,355	5,450,319	1,317,036	1,165,000	427,505	1,592,505	0.83
2006	7,819,650	5,154,718	2,664,932	1,130,000	459,937	1,589,937	1.68
Industrial Development Authority Revenue Bonds							
1997	\$ 993,160	\$ 730,878	\$ 262,282	\$ -	\$ 10,384	\$ 10,384	25.26
1998	1,675,736	1,685,685	(9,949)	6,488	115,932	122,420	(0.08)
1999	2,311,880	3,040,913	(729,033)	40,949	124,539	165,488	(4.41)
2000	4,081,389	7,840,832	(3,759,443)	43,670	121,818	165,488	(22.72)
2001	959,312	603,305	356,007	47,269	118,219	165,488	2.15
2002	9,441,520	3,633,214	5,808,306	34,899	458,358	493,257	11.78
2003	8,286,827	6,740,144	1,546,683	210,625	784,079	994,704	1.55
2004	5,098,475	1,588,271	3,510,204	385,027	770,519	1,155,546	3.04
2005	5,944,218	4,298,181	1,646,037	410,152	750,271	1,160,423	1.42
2006	8,890,472	4,946,480	3,943,992	431,777	719,112	1,150,889	3.43
Convention Center Revenue Bonds							
2005 *	\$ 6,173,597	\$ 1,210,819	\$ 4,962,778		\$ 5,360,431	\$ 5,360,431	0.93
2006	8,774,824	3,660,388	5,114,436		5,368,073	5,368,073	0.95

Notes:

- (1) Total revenues include transfer in.
- (2) Total operating expenses exclusive of depreciation.
- (3) Includes principal and interest of revenue bonds only.

*The Convention Center operations began in March 2005.

CITY OF HAMPTON, VIRGINIA
Demographic and Economic Statistics
Last Ten Fiscal Years

Table XII

Fiscal Year	Population (1)	Personal Income (amounts expressed in thousands) (2)	Per Capita Income (2)	School Membership (4)	Unemployment Rate Percentage (3)
1997	137,600	\$2,635,453	\$19,153	23,450	5.8%
1998	136,500	2,726,315	19,973	23,510	4.8
1999	136,500	3,296,910	22,653	23,431	4.3
2000	136,500	3,504,802	23,945	23,431	3.6
2001	146,437	3,685,677	25,401	23,290	3.6
2002	147,300	3,861,000	26,664	23,192	5.1
2003	145,200	4,018,000	27,628	22,996	5.4
2004	144,400	4,261,000	29,388	23,009	5.2
2005	142,800	N/A	N/A	22,938	4.6
2006	145,500	N/A	N/A	22,229	4.2

Notes:

(1) Source: Weldon Cooper Center for Public Service

(2) Source: Bureau of Economic Analysis. Figures are presented on a calendar-year basis

(3) Source: Virginia Employment Commission, Hampton

(4) Source: Hampton City Schools

N/A = Not available

CITY OF HAMPTON, VIRGINIA
Principal Employers
Current Year and Nine Years Ago

Table XIII

2006

500+ Employees

AMSEC LLC
City of Hampton
Fort Monroe
Hampton City Schools
Hampton University
Howmet Corporation
Langley Air Force Base
Lockheed Technical Operations, Inc.
NASA - Langley
Newport News Holding/Spiegel Catalog Holdings
Nextel Communications
Science Applicants Int'l Corp.
Sentara Hampton General Hospital
Teletech Customer Care
V.A. Hospital
Walmart Associates, Inc.
West Telemarketing Corporation

250 - 499 Employees

Association for Retarded Citizens
Cubic Applications, Inc.
Farm Fresh LLC
Food Lion LLC
Hampton Roads Transit
Headway Corporate Staffing Services, LLC
McDonalds
Riverside Behavioral Centers, Inc.
Raytheon Company
7 Eleven Stores
Telespectrum, Inc.

1997

500+ Employees

City of Hampton
Fort Monroe
Hampton City Schools
Hampton General Hospital
Hampton University
Howmet Corporation
Information Technology Solutions, Inc.
Langley Air Force Base
NASA - Langley
Newport News, Inc.

150 - 499 Employees

Cooper/Wagner Automotive, Inc.
EG & G Langley, Inc
Graham and Rollins, Inc.
Maida Development Corporation
Lucas Industries

V.A. Hospital

West Telemarketing

Source: City of Hampton Commissioner of Revenue

Note: The Virginia Employment Commission does not permit specific employee numbers to be publicly reported. For that reason, the ranges above are presented.

CITY OF HAMPTON, VIRGINIA
Full-time Equivalent City Government Employees by Function
Last Five Fiscal Years

Table XIV

	Fiscal Year				
	2002	2003	2004	2005	2006
Function					
Governmental Activities:					
General Government	547	534	541	581	588
Police Safety	620	620	648	663	686
Highway and Streets	30	26	29	30	31
Sanitation	34	35	35	31	35
Health	27	25	29	24	23
Human Services	263	266	254	249	237
Culture and Recreation	149	151	171	176	173
Total Governmental Activities:	1,670	1,657	1,707	1,754	1,773
Business-Type Activities:					
Culture and Recreation	47	44	44	70	43
Sanitation	145	149	151	150	154
Housing	74	74	75	71	68
Total Business-Type Activities:	266	267	270	291	265
Total	1,936	1,924	1,977	2,045	2,038

Source: City of Hampton Human Resources Department

CITY OF HAMPTON, VIRGINIA
Operating Indicators by Function/Program
Last Five Fiscal Years

Table XV

	Fiscal Year				
	2002	2003	2004	2005	2006
Function					
General Government					
Building permits issued *	3,104	3,611	3,742	3,547	1,656
Building inspections conducted	8,546	8,705	9,158	9,267	9,500
311 customer call center					
Number of calls received	n/a	265,867	307,034	288,155	290,000
Public safety					
Police					
Physical arrests	17,899	17,578	19,015	19,727	19,638
Traffic summons	25,576	23,363	32,525	40,653	33,664
Fire					
Emergency responses	20,458	21,351	19,645	19,840	22,641
Fire extinguished	428	352	367	319	689
Patient transport	7,421	8,345	10,283	10,517	10,730
Code inspections	N/A	139	103	218	335
Highway and Streets					
Roads paved or resurfaced (miles)	N/A	20.9	24	20	15.17
Sanitation					
Yard waste collected (thousands of tons)	15	15	15	16	14
Debris removed (tons)	78,000	80,000	73,600	72,245	70,000
Cleanups	10	10	10	10	10
Street sweeping	4,500	4,500	4,500	4,500	4,500
Storm Drains Cleaned (linear feet)	22,000	22,000	22,000	22,000	22,000
Health					
Preventive Health					
Family practice visits	6,057	5,905	3,223	4,217	4,000
Immunizations visits	6,584	5,991	5,694	6,943	6,500
Prescription filled	32,789	35,273	33,125	35,454	35,000
Human Services					
Healthy family partnership					
Number of families assessed	656	602	553	611	613
Number of families served	1,271	985	973	855	790
Number of adult participants in the parenting classes	1,232	1,175	1,469	1,733	1,500
Social Services					
Food stamp participants	n/a	4,227	4,860	5,318	5,850
Culture and Recreation					
Senior Citizens attendance at Senior Center	n/a	33,941	26,278	25,645	26,414
Community center admissions:					
Youth	107,830	138,071	160,555	66,975	173,654
Teen	83,573	95,079	99,043	103,995	107,114
Adult	87,966	57,681	63,904	69,655	75,500
Education					
School membership (total)	22,662	22,662	22,695	22,488	22,229
High school	6,523	6,523	6,671	6,733	6,914
Middle schools	5,694	5,694	5,605	5,530	5,450
Elementary schools	10,445	10,445	10,419	10,225	9,865
School board personnel ²	2,763	2,763	2,841	2,903	2,906
Wastewater					
Average daily sewage treatment (thousands of gallons)	1,347	1,212	1,249	1,317	1,307

* Building permits are on calendar basis. For calendar year 2006, January through June is reported.

Source: Adopted Budget Book and various city departments

CITY OF HAMPTON, VIRGINIA
Capital Assets Statistics by Function/Program
Last Five Fiscal Years

Table XVI

Function	Fiscal Year				
	2002	2003	2004	2005	2006
Public Safety					
Police					
Patrol units	220	227	227	227	227
Patrol boats	2	3	3	3	3
Fire					
Stations	10	10	10	10	10
Pumpers	19	19	19	19	19
Ambulances	18	18	18	18	18
Rescue vehicles	3	3	3	3	3
Ladders trucks	2	2	2	2	2
Highway and Streets					
Street (miles)	432.36	435.35	435.35	437.68	437.68
Traffic signals	161	161	163	174	177
Bridges	39	40	41	41	41
Sanitation/Solid Waste					
Collection trucks	44	44	44	44	44
Culture and Recreation					
Park acreage ¹	1575	1575	1628	1628	1628
School parks acreage	675	675	675	675	675
Parks	17	17	17	23	23
Amphitheater	1	1	1	1	1
Baseball fields	38	38	38	38	38
Basketball courts	35	35	35	35	35
Boat ramps	3	3	3	3	3
Coliseums	1	1	1	1	1
Community centers	4	4	5	5	5
Convention center	0	0	0	1	1
Fitness trails	N/A	N/A	N/A	12	12
Football fields	20	20	20	20	20
Football stadium	1	1	1	1	1
Golf courses	2	2	2	2	2
Indoor swimming pools	1	1	1	1	1
Municipal beaches	3	3	3	3	3
Municipal parks	N/A	N/A	N/A	10	10
Museums	2	2	2	2	2
Outreach centers	4	4	4	4	4
Picnic shelters	28	28	28	28	28
Playgrounds	41	41	41	41	41
Senior citizens center	1	1	1	1	1
Soccer fields	28	28	28	28	28

CITY OF HAMPTON, VIRGINIA
Capital Assets Statistics by Function/Program
Last Five Fiscal Years

Table XVI

Function	Fiscal Year				
	2002	2003	2004	2005	2006
Softball fields	15	15	15	15	15
Tennis courts	66	66	66	66	66
Theatres	1	1	1	1	1
Fort Wool	1	1	1	1	1
Education					
High schools	4	4	4	4	4
Middle schools	6	6	6	6	6
Elementary schools	24	24	24	24	24
Wastewater					
Sanitary sewers lines (miles)	460	465	468	471	465
Sewer Pumping stations	102	103	104	105	107

Source: Various city departments.

Notes:

(1) Park land currently developed

FINANCIAL COMPLIANCE REPORTS FOR FEDERAL FUNDS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the City Council
City of Hampton, Virginia

Compliance

We have audited the compliance of the City of Hampton, Virginia, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Hampton, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Hampton, Virginia's management. Our responsibility is to express an opinion on the City of Hampton, Virginia's compliance based on our audit.

The City of Hampton, Virginia's basic financial statements include the operations of the Hampton Redevelopment and Housing Authority, which expended \$21,832,175 in federal awards which is not included in the Schedule of Expenditure of Federal Awards for the year ended June 30, 2006. Our audit, described below, did not include the operations of Hampton Redevelopment and Housing Authority because Hampton Redevelopment and Housing Authority engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hampton, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hampton, Virginia's compliance with those requirements.

In our opinion, the City of Hampton, Virginia complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Hampton, Virginia is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hampton, Virginia's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

With Mares, PLC

Newport News, Virginia
November 22, 2006

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To the City Council
City of Hampton, Virginia

We have audited the financial statements of City of Hampton, Virginia, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. We did not audit the financial statements of the Hampton Redevelopment and Housing Authority's funds, which statements reflect total assets of \$47,766,722 as of December 31, 2005, and total revenues of \$23,534,298 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hampton Redevelopment and Housing Authority in the proprietary funds, is based on the report of other auditors.

Internal control Over Financial Reporting

In planning and performing our audit, we considered the City of Hampton, Virginia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration for the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hampton, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement

amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We did not perform tests of Hampton Redevelopment and Housing Authority's compliance with laws, regulations, contracts, and grant agreements. Those test were performed by the other audits, whose report on compliance with laws and regulations in accordance with *Government Auditing Standards* was furnished to us. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Witt Mars, PLC
Newport News, Virginia
November 22, 2006

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH COMMONWEALTH OF VIRGINIA
LAWS, REGULATION, CONTRACTS, AND GRANTS**

To the City Council
City of Hampton, Virginia

We have audited the financial statements of the City of Hampton, Virginia, as of and for the year ended June 30, 2006 and have issued our report thereon dated November 22, 2006. We did not audit the financial statements of the Hampton Redevelopment and Housing Authority, which statements reflect total assets of \$47,766,772 as of December 31, 2005 and total revenues of \$23,534,298 for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Government Auditing Standards, issued by the Comptroller General of the United States; and Specifications for Audits of Counties, Cities and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the City of Hampton, Virginia, is the responsibility of the City of Hampton, Virginia's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Hampton, Virginia's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. The following is a summary of the Commonwealth of Virginia laws, regulations, contracts and grants for which we performed tests of compliance:

Code of Virginia:

- Budget and Appropriation Laws
- Conflicts of Interest Act
- Debt Provisions
- Uniform Disposition of Unclaimed Property Act
- Enhanced 911 Services Taxes
- Cash and Investment Laws
- Local Retirement Systems
- Cash and Investment Laws
- Procurement Laws

State Agency Requirements:

- Social Services
- Comprehensive Services Act for At-risk Youth and Families
- Sheriff's Inmate and Canteen Fund
- Economic Development Opportunity Fund
- Education

With respect to the items tested, the results of our procedures disclosed instances of noncompliance with the provisions referred to in the preceding paragraph, which are shown on the schedule of the findings and questioned costs as items #1 and #2. With respect to items not tested, nothing came to our attention that caused us to believe that the City of Hampton, Virginia, had not complied, in all material respect, with those provisions.

This report is intended solely for the information and use of City Council, management and applicable state awarding agencies and is not intended to be, and should not be sued by anyone other than these specified parties.

Witt Mars, PLC

Newport News, Virginia
November 22, 2006

CITY OF HAMPTON, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section I-Summary of Auditors Results

Financial Statements

Type of auditor's report issued: **UNQUALIFIED**, qualified, adverse, or disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not
Considered to be material weaknesses? _____ Yes X No
- Noncompliance material to financial
Statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not
Considered to be material weaknesses? _____ Yes X No

Type of auditor's report issued on

Compliance for major programs: **UNQUALIFIED**, qualified, adverse, or disclaimer

Any audit findings disclosed that are
Required to be reported in accordance

With section 510(a) of Circular A-133? X Yes _____ No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.561	State Administrative Matching Grants for
	Food Stamp Program
93.778	Medical Assistance Program
93.558	Temporary Assistance for Needy Families
93.596	Child Care Development Fund
93.575	Child Care and Development Block Grant
84.010A	Title I – Educationally Deprived Children-LEA
84.367A	Title II – Training and Recruiting
84.287C	Title IV – 21 st Century

Dollar threshold used to distinguish between
Type A and type B programs:

\$ 1,130,176

Auditee qualified as low-risk auditee?

X Yes No

Section II-Financial Statement Findings

None

Section III-Federal Award Findings and Questioned Costs

Finding/Questioned Cost #1– Program Procedures

Department of Education

- Title I Grants to Local Educational Agencies (Title I, Part A) (CFDA #84.010)

Statement of Condition:

The City of Hampton Schools could not locate the original supporting documentation for the amounts reflected in the 2005-2006 Title I Application – Eligible Attendance Areas.

Criteria:

In accordance with the Title I Application instructions the City of Hampton Schools must maintain support for each application they file.

Amount of Questioned Costs:

We were unable to determine a dollar amount, if any, associated with this finding.

Effect of Condition:

The City of Hampton Schools could not locate the supporting documents to verify that the numbers filed in the application were correct.

Cause of Condition:

The City of Hampton Schools Title I Department has had various personnel prepare the application and all have used different reports to obtain the necessary information to file the application and none was kept with the application.

Recommendations:

We recommend that a set of standard reports be created to obtain the numbers necessary to file the report. This will allow for consistency in the application no matter who prepares it.

Finding/Questioned Cost #2– Program Procedures

Department of Education

- Title I Grants to Local Educational Agencies (Title I, Part A) (CFDA #84.010)

Statement of Condition:

The City of Hampton Schools allocated more Title I monies to lower poverty schools than to higher poverty schools.

Criteria:

In accordance with the Title I Application instructions, the City of Hampton Schools should not have a Per Pupil Expenditure (PPE) in a lower poverty school that is greater than a PPE in a higher poverty school.

Amount of Questioned Costs:

We were unable to determine a dollar amount, if any, associated with this finding.

Effect of Condition:

The City of Hampton Schools allocated more Title I monies to lower poverty schools than those with higher poverty. Therefore, the lower poverty schools may have received more Title I funding than higher poverty schools.

Cause of Condition:

The City of Hampton Schools Title I Department has allocated funding to eligible schools based on salary requirements instead of using the instructions for Allocations to Eligible Schools.

Recommendations:

We recommend that the City of Hampton Schools Title I Department create a spreadsheet that will not only encompass the salary needs at each school but will also include information to ensure that higher poverty schools are receiving more funding than lower poverty schools.

CITY OF HAMPTON, VIRGINIA
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2006

Management's Views and Corrective Action Plan

The Hampton City School Board (Schools) is a discretely presented component unit of the City of Hampton. As such, A-133 findings related to the Schools are reported in the City's A-133 Report contained in its Comparative Annual Financial Report (CAFR). Below, you will find management's response and Corrective Action Plan for A-133 findings related to the Schools for the year ended June 30, 2006.

Finding/Questioned Cost #1– Program Procedures

Department of Education

- Title I Grants to Local Educational Agencies (Title I, Part A) (CFDA #84.010)

Statement of Condition:

The City of Hampton Schools could not locate the original supporting documentation for the amounts reflected in the 2005-2006 Title I Application – Eligible Attendance Areas.

Corrective Action Plan:

In response to this finding, the Title I Department will file all supporting documentation with the application for future reference and have evidence of taking the proper steps to collecting all pertinent data. A standard report will be created to obtain this data and will be used consistently when filing the application.

Completion Date: June 30, 2006

Responsible Party:

Dr. Mildred Sexton, Executive Director of Elementary
School Leadership and Compensatory Programs

Finding/Questioned Cost #2 – Program Procedures

Department of Education

- Title I Grants to Local Educational Agencies (Title I, Part A) (CFDA #84.010)

Statement of Condition:

The City of Hampton Schools allocated more Title I monies to lower poverty schools than to higher poverty schools.

Corrective Action Plan:

The Virginia Department of Education (VDOE) is the pass-through agency for the Title I funds that the Schools receive. The Schools' Title I Application is prepared and submitted to the VDOE for approval annually. The 2005-2006 application, which included higher allocations of Title I funds to lower poverty schools than higher poverty schools, was approved by the VDOE.

In response to this finding, Virginia school divisions and the VDOE have been collaborating to develop solutions to this issue. Several Hampton City Schools Board employees have attended training sessions conducted by the VDOE that provided information regarding the mechanics of completing the Title I application. The training session also disseminated strategies that are required to be utilized to accurately calculate the proper allocation to each school when considering its poverty level. The VDOE also issued Title I Application guidelines that were to be followed by school divisions when completing the application. The Schools have utilized those guidelines in the preparation of the 2006-2007 Title I Application.

Completion Date: June 30, 2006

Responsible Party:

Dr. Mildred Sexton, Executive Director of Elementary
School Leadership and Compensatory Programs

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